THE Public Interest

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The social pork barrel

DAVID A. STOCKMAN

WHEN the curtain opened on the 93rd Congress in January of 1973, the stage was set for battle. The usual spate of journalistic previews unanimously warned of an impending clash between the Executive and Legislative branches, with the lines of battle extending to numerous fronts, but most notably the federal budget. The then reigning Nixon Administration assiduously cultivated this climate, first by means of leaks and official pronouncements and, as the year got underway, through a series of dramatic, deliberately provocative policy actions.

Early in January it announced that HUD's multi-billion-dollar housing subsidy programs, which had grown from a mere conception in 1968 to nearly one quarter of the housing market four years later, would be abruptly terminated. When the FY 1974 budget was issued the following month, it contained eight finely typed pages listing more than 100 sacred cows slated for the fiscal butcher shop. Among these were the community action program, hospital construction, impact aid, library support, graduate traineeships, college student loans, and funds for mental health, alcoholism, urban renewal, school lunches, and a host of additional projects. Too impatient even to wait for Congress to consider this sweeping budgetary purge, the Administration aggressively pressed its case, unilaterally

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halting spending for scores of these programs right during the middle of the old fiscal year. Moreover, the rhetoric emanating from the White House was no less determined than its actions. Referring to the Administration's plan to drastically revamp and curtail federal aid to education, Commissioner of Education Sidney Marland, for example, defiantly insisted that "we stand on ERS [education revenue sharing], live or die."

For once, Congress did not greet this challenge with its characteristic inertia. During the next few months it speedily approved more than a half-dozen resolutions reinstating terminated programs and imposing mandatory spending requirements on the administering agencies. Although the ensuing flurry of vetoes found Congress incapable of producing the two-thirds majorities needed to override, at least partial compensation was had in the form of a rhetorical outpouring from Capitol Hill, both as to the merits of the programs involved and the accompanying threat to the Congressional powers of the purse, that has few historical parallels in volume or intensity. For a time it appeared, at least from a distance, that a genuine debate over budget priorities, program effectiveness, and the proper role of the federal government in dealing with domestic ills might at long last be taking shape. At that point, however, Judge Sirica read James McCord's letter in open court, a brisk demand for Washington's attorneys developed at the White House, and the opening scene quickly faded in preparation for what was to become the main act.

Today, of course, this tempestuous "battle of the budget" has been long since forgotten, having given way to Watergate, the energy crisis, and now the recession. But it would be a mistake to attribute the utter failure of the 1973 budget control offensive to the subsequent, unrelated political demise of the Administration which launched it or to the fact that economic conditions have changed and other issues have come to the fore. Given the realities of fiscal politics in the 1970's, a serious effort at a fundamental reordering of the $300-billion Federal budget would have met with scant success even under the best of conditions. And it would be even more of a mistake to assume that abortive 1973 effort was addressed to a non-existent or exaggerated problem. Quite to the contrary. When the second Nixon Administration took office two years ago it found itself struggling mightily to hold FY 1973 spending below $250 billion. By the time of the next Presidential election, the Ford Administration will be grappling no less strenuously with FY 1978 budget estimates approaching $500 billion.

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Moreover, that enormous growth will have occurred in a period in which none of the big new social spending programs now languishing on the national agenda will have been acted upon or implemented. Bogged down in Watergate, the 93rd Congress bobbed, weaved, and finally sidestepped multi-billion-dollar initiatives like national health insurance, welfare reform, and general aid to education. The 94th Congress, burdened with the problems of recession and energy, will probably also avoid these expensive social programs.

The crisis of the budget

Yet sooner or later these fundamental questions must be addressed, and it is that prospect which brings the true dimensions of the budget crisis into full relief. It is not just that the budget is heavily in deficit this year, as it has been during every year but one since 1965, or that almost three fourths of all outlays are now "uncontrollable" in the current year. The real problem is that although large, complex programs begin at relatively modest outlay levels and do not attain their full impact on the budget for a number of years, there is no longer anywhere near the margin of uncommitted revenues even three or four years in advance that would be needed to finance national health insurance or the incremental costs of a decent national income guarantee program. For some time now, the built-in momentum of the federal budget and the exigencies of fiscal politics have produced expenditure growth rates that not only outpace current-year revenues but also absorb the "fiscal dividend" of economic growth up to a half decade into the future. As a consequence, it has almost become fiscally irresponsible even to discuss enactment of these measures.

Nothing illustrates this point better than the fate of the Brookings Institution's annual forecasts on long-range budget prospects. In its first analysis of the federal budget in 1970, a $23-billion budget surplus was forecast for FY 1975, based on the assumption that the revenue structure would not change and that expenditures would rise only enough to cover built-in cost increases of existing programs. As it turns out, the actual budget for FY 1975 will be *in deficit* by at least that amount, and most likely by considerably more. The following year's projection was even further off target: rather than the $17-billion surplus projected by Brookings for FY 1976, there will be a deficit probably exceeding $60 billion. In 1973, an FY 1977 surplus of $13 billion was forecast, but recent computer runs simulat-

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ing various anti-recession tax and spending policy alternatives now under discussion suggest that the FY 1977 budget deficit will range from a minimum of $35 billion under the Administration's plan to almost $80 billion under proposals favored by Congressional Democrats.

It will be objected, of course, that these Brookings projections were premised on normal inflation rates and conditions of full employment. While this may be true, it does not alter the fact that there is currently no medium-range budget margin to finance national health insurance, welfare reform, or general aid to education. More important, however, there is a clear asymmetry of errors in these Brookings forecasts. The 1970 predictions, for example, showed FY 1975 full-employment revenues of $276 billion and expenditures of $253 billion. Setting aside the effects of recession on both sides of the budget, the revenue estimate was about $30 billion short of actual FY 75 full-employment revenues and the expenditure estimate was nearly $60 billion short of expected outlays (other than automatic stabilizer outlays triggered by the recession). The revenue shortfall is just about exactly what Charles Schultze and others have estimated to be the inflation-induced "implicit tax increase," indicating that the error on the revenue side is solely attributable to unforseeeable rates of price increase. The fact that the shortfall in the expenditure forecast was double this amount suggests that inflation alone cannot explain the gap and that discretionary spending increases have played an important role. Since no major new spending programs have been adopted in the last few years, it can only be concluded that Congress abhors prospective budget surpluses, preferring to nickel and dime them into oblivion long before they appear.

This is almost precisely what has occurred during the past six years. While national health insurance and welfare reform have been time and again artfully deferred, Congress has not been loathe to add a billion here for black lung compensation, when the costs should properly be borne by the coal industry, or a billion extra there for disaster relief, when losses from building on a flood plain or raising crops in drought-prone areas should be the responsibility of the risk-takers. It has persistently refused to phase out federal funding for the community mental health centers program, to take another example, despite the fact that this effort was initiated in 1963 with the clear understanding that the federal support role would be completely terminated by the end of the decade. Like clockwork, it raises each year's appropriations request for the Na-

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tional Cancer Institute, although the therapeutic preoccupation of the medical guild which operates the program has produced no noticeable improvement in cancer survival rates during the last 15 years of multi-billion-dollar research efforts. Although medical school subsidies and graduate traineeships basically represent a reverse redistribution of income, OMB-initiated efforts to reduce these outlays are rejected as mean-spirited attempts to shortchange "human needs." And so it goes. With revenues fully committed for years in advance, the federal budget process, potentially the basic forum for serious policy choices, has been reduced to a mere annual ritual of accounts juggling.

The illusory alternatives

These considerations might easily lead to the conclusion that national social policy has come to a dead stop, paralyzed by the apparently immutable tendencies of fiscal politics to close the door to any fundamental innovation in strategy well into the future. Yet since such a harsh conclusion does not go down well even in these bleak times, it must be conceded that there are alternatives which merit consideration, if not a great deal of confidence. Today, as yesterday, the conventional liberal wisdom is that the funds necessary for national health insurance or a decent income guarantee program are to be had merely by reordering domestic spending priorities or through sweeping tax reform.

An examination of this standard proposition, however, quickly suggests that the allure of these potential revenue savings consists of more glitter than gold. On the spending side, for example, liberals are very definitely not talking about reallocating funds from the so-called "human resources" sector of the budget, but about cutting traditional items like defense spending, highways, the space program, and farm subsidies.

Yet changes in spending patterns over the past few years may make the potential savings obtainable in this way modest to negligible. For one thing, White House incantations about the shift in expenditures from defense to "human needs" are not as phony as some of the statistics that have been used to demonstrate it. Whereas the four items cited above accounted for nearly 55 per cent of the unified budget in FY 1964, only 11 years later they amounted to less than 30 per cent.

A glance at each category individually provides even less reason to be sanguine about the vast savings allegedly to be gained by es-

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tablishing "new priorities." Now that the Highway Trust Fund has been breached, the currently authorized modest diversion to mass transit will likely soon enlarge into a torrent under the pressure of the energy crisis. That's fine for mass transit, but obviously will not release a single penny for new social spending initiatives.

Similarly, the shift from agricultural glut to worldwide scarcity and the accelerating erosion of the farm block in Congress will mean that farm subsidy outlays will decline from $5 billion a few years ago to close to zero within perhaps a year or two. Space spending has already been cut from $7 billion (1975 dollars) 10 years ago to just over $3 billion today; although there is room for further trimming, there appears to be little support for scrapping the program entirely. Thus, any savings here might be in the millions, rather than billions.

Realistically viewed, even that fiscal gold mine known as the defense budget has become a problematic source of savings, despite its current $95-billion price tag. The basic problem is that strategic weapons and other military hardware have always constituted the primary targets for cuts, but the share of the defense budget attributable to these items has dropped from nearly 50 per cent in 1964 to less than 30 per cent during the current fiscal year (or in 1975 dollar amounts, from $38 billion in the former year to $23 billion today). This rather pervasive shift is largely the result of the escalating costs of manpower under the volunteer army. Since the latter is probably invulnerable at present, the effect has been to narrow the target for defense budget reductions quite substantially.

Indeed, given the recent fissures that have developed in the structure of détente and the fact that U.S. spending for military hardware has been declining toward rock bottom for almost four years, it is highly unlikely that any deep cuts will be made in the defense budget—the new, liberal 94th Congress and the downfall of Chairman Hébert notwithstanding. The continuing tension in the Middle East provides a further reason for skepticism, since the set of highly pro-Israel Congressmen and the set of avid defense budget-cutters, to borrow a leaf from the new math, are largely identical. The only real prospect for even modest defense spending reductions lies outside the hardware area and would involve such steps as reforming the overly generous military retirement pay system, wholesale closing of scores of outmoded U.S. defense bases, substantial reductions in the national guard and the service reserve forces, and the imposition of far tighter managerial and operating efficiencies on the Department. Needless to say, reductions in these areas do not have

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the same political appeal as does cutting the big hardware items, and, even more important, would cause serious repercussions right where it hurts Congressmen the most—in their own political backyards.

The limitations of tax reform

The prospects for large revenue gains from tax reform are not much more promising. To be sure, the appetites of some tax reformers have been whetted anew by Joseph Pechman's recent definitive study revealing that due to the accumulation of exemptions, deductions, and other special breaks, the personal income tax take has been eroded by $77 billion annually. But as Irving Kristol and others have pointed out, it takes little more than turning the study's cover page to grasp the political inhibitions to recouping even a fraction of this huge sum.

For example, the biggest single chunk of the total ($21 billion) is accounted for by the rate advantages of filing joint returns. Undoubtedly, America's 45 million husband/wife families would not be overly enthusiastic about a proposal to eliminate this "loophole." Another $20 billion is attributable to the exclusion of transfer payments and the standard deduction. Since no politician is suicidal enough to propose taxing social security checks, and none is courageous enough to explain to the electorate the monetary advantages of a tax credit in lieu of the current deduction from gross income, that portion of Pechman's billions is probably also beyond reach.

The great bulk of the remainder is accounted for by what might conveniently be termed the "middle-class deductions." Yet as Senator McGovern learned in 1972, should a candidate even be suspected of intending to tamper with the state and local tax deductions ($5.6 billion), health insurance preferences, pension and life insurance exclusions, consumer interest deductions ($9 billion in aggregate), or homeownership preferences, he'd better beat a fast retreat if he hopes to have any chance at all of gaining a victory on election day.

The latter item is particularly interesting. Pechman attributes a $9-billion revenue loss to homeownership preferences, but about half of that would be accounted for by taxation of what economists call "imputed rent" from homeownership. Any Congressman looking for a truly quixotic mission might set about to convince the average homeowner that he should pay hundreds of dollars in additional taxes each year on purely "theoretical" income!

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Admittedly, tax reformers like Phillip Stern have pointed out that the dollar benefit per taxpayer for these middle-class perferences amounts to thousands for the rich and very little for the average family. Nevertheless, millions of middle-class taxpayers do benefit from these preferences and the bulk of the aggregate revenue gain would come out of *their* collective pockets. Seventy-five per cent of the $4-billion gain from repealing the health deductions, for example, would come from those earning less than $20,000.

At best, Pechman's $77 billion reduces to about $14 billion of realistically recoverable revenue, but even that may be more apparent than real. Almost $2 billion is attributable to the exemption for municipal bond interest, yet no one has ever proposed a reform in this area that was not immediately offset by an equivalent direct interest subsidy to local governmental units. Similarly, the $4-billion savings from taxing capital gains at death is likely to melt down to less than half of that when a grandfather clause, small estate exemption, and the machinations of ever resourceful tax lawyers are allowed for. And since very few realistic tax reformers have called for a total repeal of the capital gains preference without at least a partially offsetting reduction of high-bracket marginal tax rates, the $9 billion theoretically to be gained by plugging this loophole would also likely be a lot less in practice.

Finally, despite all the demogoguery about "obscene" oil company profits, the prospects for a major revenue bonanza from this source are not very good either. Last fall the Ways and Means Committee estimated that even at today's domestic oil prices, complete repeal of the depletion allowance (except for the small producer exemption) would raise only $2.3 billion annually. Of course, an additional windfall profits tax could raise considerably more—up to $12 billion, if coupled with the Administration's proposed decontrol of domestic oil prices. But it should not be forgotten that a windfall profits tax is basically a mechanism for shifting petroleum investment decisions from private oil companies to government energy bureaucracies. The growing popularity of the proposal for an energy research and development trust fund, which would receive all windfall profits and other new energy tax revenues, suggests that these proposals would not add a penny to the general fisc.

Overall, then, the realistic limit on revenue gains from tax reform, including immediate repeal of the depletion allowance, is probably about $10 billion. While certainly not a negligible sum, this would not even begin to relieve the fiscal paralysis now gripping the federal budget.

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Great society or social pork barrel?

Despite the bleak budgetary outlook there can be little doubt that the United States urgently needs a fundamental shift in social policy strategy. Since 1950, federal spending for what the Social Security Administration defines as "social welfare purposes" has risen dramatically—from $14 billion to nearly $170 billion, and from less than a fifth of the federal budget to more than half. If similar expenditures by state and local governments are included, it appears we are now spending substantially more than *one-quarter trillion dollars* for social programs.

Needless to say, we are not getting much bang for the buck. We are now spending $25 billion, for example, on the direct financing of health care for the aged, the poor, and the disabled but the suspicion is that a good portion of this total serves merely to exacerbate the deficiencies of our current inflationary, inefficient, badly unbalanced health care delivery system. In a small percentage of instances, the current panoply of cash assistance and in-kind benefit programs provides a comfortable income equivalent of more than $8,000 annually for female-headed families in areas like New York City, as demonstrated by the investigations of the Griffiths Subcommittee on Fiscal Policy. In most states and most instances, however, it is not this cumulative benefit package which is available, but instead a grab-bag of uncoordinated, gap-ridden programs that simultaneously provide both inadequate income maintenance and marginal tax rates that we shrink from levying even on millionaires. And as Elliot Richardson forcefully pointed out during his tenure at HEW, the explicitly service-oriented programs—compensatory education, community mental health centers, vocational rehabilitation, social services—that fall under the social spending umbrella have yet to demonstrate any clear effectiveness and are most notable for their almost random distribution of benefits among a tiny fraction of the formally entitled population.

Given current fiscal realities, there is equally little doubt how any fundamental policy redirection must be financed. A decisive shift toward alternative strategies—a comprehensive national health insurance program and universal income maintenance—can be accomplished only through a vast reprogramming of funds from *within* the social welfare sector of the budget itself. At current growth rates, federal social welfare outlays will range between $225 and $250 billion in FY 1978. At least in terms of sheer arithmetic, there is no reason in the world why a budget path, widening to something like the $30 to $50 billion in incremental financing that would be needed

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for these new programs when fully effective, could not be carved out of the 1978 social welfare budget, were an effort now begun to pave the way.

Unfortunately, the billions that pass through the social welfare budget each year are anchored in place by political sinews probably as sturdy as those which line the Internal Revenue Code. In part this is attributable to ideological obsolesence. Having fed on a "starved public sector" rhetorical diet for so long, the dominant liberal forces in Congress are simply unwilling or unable to recognize that this perhaps once appropriate complaint has long since ceased to reflect reality, and that a major reordering of social spending priorities, rather than a further increase in total outlays, has now become imperative.

In the main, however, the essential impediment to reprogramming the social welfare budget is deeply political and structural. The care and maintenance of the social welfare spending pipeline that extends to each of the 435 Congressional districts in the nation have now become a central preoccupation of Members and their staffs. This task ranges from vigilance in committee and on the floor to ensure that allocation formulas provide maximum benefits to the district, to intervention before the agencies in behalf of local clientele groups or project applications, to ceaseless on-site inspections and the development of close working relationships with all manner of federal grantees at the local level.

Evidence of the manner in which concern for servicing the social spending pipeline shapes Congressional behavior abounds. For example, if there has been one single aspect of domestic legislation during the last few years that has gained the attention and intense interest of almost all Members, it is the increasingly common "hold-harmless clause," a device used to insure that regardless of changes in statutory requirements or allocation formulas there will be no actual reductions, at least for a few years, in the flow of funds to local projects. Indeed, this syndrome attained what can fairly be termed a peak of absurdity when Congress recently reorganized a number of urban development programs but attached a *seven-year* hold-harmless clause on funding for Model Cities, one of the major components of the consolidation.

Similarly, there has been an enormous increase in Member staff allowances over the past decade—it now costs more than $750 million annually to finance Congress itself. But most of the additional resources have been used for servicing constituent needs or problems arising in one way or another from the vast outpouring of federal

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funds into each Congressional district. Although the federal bureaucracies are noted for becoming strangled in their own paperwork and regulations, there is one bureaucratic responsibility that is carried out efficiently and systematically: Each day hundreds of grant award announcements go out to Members representing the districts affected, where they are in turn translated into endless copy in the local press and volumes of good will among the benefited constituencies. Finally, the increase in the number of federal grant programs from about 200 in the early 1960's to more than 1100 today has spawned an array of public sector interest groups which have become just as sophisticated and savvy in the intricacies of legislative maneuvering and influence as any of the old-line economic interest groups. Possessing tentacles that reach out into every part of the country and having fully mastered the art of legislative log-rolling, the health lobby, the education lobby, and the various organizational arms of state and local officials have in many ways become the real superpowers of Capitol Hill.

In short, the vast increase in federal social welfare outlays—from less than six per cent of national income in 1950 to more than 15 per cent today—has created in its wake a political maintenance system based in no small part on the cooptation and incorporation of Congress itself. If Members were ever legislators and statesmen, they have more and more taken on the characteristics of constituency ombudsman and grant brokers. As a consequence, the aims of social policy have been subordinated to the exigencies of the new fiscal politics, and what may have been the bright promise of the Great Society has been transformed into a flabby hodge-podge, funded without policy consistency or rigor, that increasingly looks like a great social pork barrel. If proof be necessary, the legislative record of the last few years lends ample support to this unflattering appraisal.

Preserving the prize pigeons

"Don't close the money sluice no matter how outmoded the program"—that is the first principle of the new fiscal politics. Hill-Burton, one of the earliest large-scale federal grant-in-aid programs, embodies this precept perfectly. Begun at the close of World War II in response to a national hospital bed shortage estimated to be 40 per cent, it has since provided more than $12 billion for the construction of a half-million additional beds in nearly 4,000 communities across the nation. Although few students of federal health pol-

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icy doubt the success of Hill-Burton in closing the nation's hospital bed gap, neither do many believe that the program ought to be continued at its current $200-million annual funding level. The reason is simply that the shortages of three decades ago have been transformed into a glut. It is not that a large number of hospitals stand empty, though in some rural areas where the program was especially generous, this is definitely the case. Rather, the problem is that the combination of an excessive supply of beds and the strong incentives in the private insurance system for in-hospital treatment have created a tremendous, costly over-hospitalization of the American public in place of less expensive alternatives.

The rather dramatic variation in per capita hospitalization rates from state to state underlines this point. In 1970, the hospital days per 1,000 population rate ranged from a low of 1.17 in Alaska, to 2.75 in Arizona, 3.71 in Illinois, 4.53 in Minnesota, and 5.64 in the District of Columbia. That range of better than five to one, of course, might be attributable to a number of factors including differences in per capita income, relative number of doctors, or hospital cost variations. Yet statistical analysis shows that when all of these possible explanatory variables are controlled, there is still nearly a perfect correlation (.92) between hospitalization rates and the number of hospital beds. Since no similar relationship between frequency of hospitalization and health status has even been uncovered, the only real effect of building more hospital beds is apparently to encourage excessive use.

This tendency for hospital beds to create their own demand has been termed Roemer's Law, after the medical economist who first posited the relationship. But when the annual Hill-Burton appropriation comes to the floor of Congress each year, it is not Roemer's Law but that colorful dispenser of the pork, Chairman Dan Flood of the Labor-HEW appropriations subcommittee, who carries the day. Referring to a recent Administration effort to slash funds for new hospital construction, Flood termed these grants "your prize pigeons" and assured his colleagues that his committee had dutifully kept the OMB budget-cutters out of the Congressional "backyard."

Although the Administration has been attempting to phase out Hill-Burton since 1970, the program has yet to be seriously disturbed. To be sure, Congress did approve a revision of the program in the waning days of the last session, but it is worth noting that the committee took pains to downplay the changes, describing them merely as "modest modifications" of the old program. For the most

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part, Hill-Burton will continue at traditional funding levels for traditional purposes, and those "prize pigeons" will be coming home to roost for many of sessions into the future.

Hill-Burton, of course, is not the only program that has weathered the challenge of obsolescence. The notorious impact aid program probably still ranks second to none in terms of political invulnerability. Started during the Korean War to compensate for the influx of students in about two per cent of the nation's school districts heavily impacted by military bases and war-related defense production, it has since been expanded to cover 25 percent of all districts enrolling fully one half of the nation's public school children. The fact that 90 per cent of all students aided are in the so-called "B" category (their parents only work—and don't live—on federal installations) and that three fourths of the districts receiving roughly $375 per student have fewer than 10 per cent eligibles in their total enrollments, suggests that most suffer no crushing burden from federal activities. Indeed, given the unseemly manner in which many city fathers scramble to retain existing federal facilities or attract new ones, it might be questioned whether any real "burden" exists at all. Certainly, now that all politicians seem to have become Keynesians, it is puzzling that they applaud the multiplier effect of federal expenditures at the national level but seem to ignore it entirely when it comes to the spending associated with federal installations in their own bailiwicks. The unspoken cynicism underlying this convenient inconsistency was revealed with surprising candor by Congressman Tom Rees who recently admitted to the *Los Angeles Times*, "Each year I think I've cast my last vote for the program. But what can I do when the district superintendent in Los Angeles comes with tears in his eyes and says he needs the money? I vote for it again." So do most other Members, satisfied that however great its deficiency in terms of policy rationale, the impact aid program does keep the social spending pipeline flowing to the tune of $500 million annually.

The social insurance myth

A second important characteristic of the social pork barrel can be best expressed as a politician's adaptation of the old utilitarian maxim: "the greatest goodies for the greatest number." This tendency to disburse benefits widely rather than concentrate them on those in genuine need begins first and foremost with the social security system, which now costs $65 billion annually. To be sure, cer-

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tain shortcomings of the system, including the regressive tax from which it is financed, its long-range funding difficulties, and all sorts of minor inequities among beneficiary classes, have become increasingly recognized. But these are merely technical deficiencies that obscure the more fundamental problem: Social security now departs so widely from any recognizable principle of insurance that the "social insurance" mythology surrounding it ought to be discarded once and for all, thereby permitting policy decisions—especially those dealing with the benefit structure and benefit increases—to be based on straightforward income transfer principles.

Needless to say, this conceptual breakthrough remains light years away because the political logic of retaining the time-worn veneer of social insurance is too compelling to resist. It permits Congress to reflexively grant across-the-board increases at least every election year, an action which assures incumbents the undying gratitude of some 30 million beneficiaries on election day. Indeed, between 1972 and 1974 Congress employed this device three separate times for a cumulative benefit rise of 33 per cent. Unfortunately, when these flat-rate increases are applied across a benefit schedule that currently ranges from $94 to $305 per month, the results are highly inequitable. Despite the rampant inflation of the last two years, those on the bottom end of the scale gained $300 per year in additional income from these increases, hardly enought to cover the rise in the cost of the minimum food budget as determined by the Bureau of Labor Statistics. Meanwhile, those on the upper end, far less in need in the first place, have had their benefits boosted by more than $1,100. And now this flat-rate benefit increase pattern has been institutionalized with the adoption of an automatic cost-of-living escalator which, in effect, provides double compensation for inflation.

Were all social security recipients equally situated in terms of outside sources of income from private pensions, asset earnings, and the like, even these absolute dollar disparities might plausibly be justified. Yet the most recent data available (1969) show that more than two-thirds of those receiving maximum benefit payments had *both* private pension income and property income, often amounting to many thousands of dollars annually. By contrast, less than seven per cent of those receiving minimum benefits received private pension income and less than a third had property earnings. These flagrant inequities persist because, more than any other program, social security has been treated as, and is frankly acknowledged by many Members to be, a matter solely within the realm of fiscal politics.

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For that reason, what is essentially an income transfer program will never really be reshaped according to the "needs" or "means" criteria which are the only appropriate standard for this kind of government spending. Meanwhile, social security will continue to ingest increasing portions of the public fisc, thereby indefinitely prolonging the current fiscal crisis.

The federal three-for-one sale

It is obvious, of course, that even the $80 billion in annual social welfare spending outside of the regressive social security system does not go to the poor or near poor. If it did, the officially estimated poverty gap of $12 billion could be closed seven times over, and the implicit $13,000 per family of four poor persons would make even the National Welfare Rights Organization look like pikers. The truth of the matter is that these huge sums are diluted across nearly the entire range of the income spectrum, a factor which both explains their political staying power and also why we still have 25 million poor Americans in a $1.5-trillion economy.

The rather interesting history of the federally funded social services program illustrates quite dramatically how assistance to the disadvantaged is frequently processed into social pork. Begun in the early 1960's at the instigation of former HEW Secretary Ribicoff, it was designed to "breathe a new spirit into our public welfare programs" by providing a broad range of psycho-social services to public assistance recipients. The aim was to replace dependency-producing, stigmatizing relief with a creative combination of rehabilitation services and cash assistance that would restore welfare families to independence, self-support, and a place in the mainstream.

Initially funded at substantially less than $100 million, it had ballooned into a $2-billion program by 1972, and threatened to climb to $4 billion during FY 1973. Although Congress did enact a $2.5-billion spending ceiling during the fall of 1972, the subsequent two years gave rise to a fiercely raging battle between Capitol Hill and the Administration over new HEW regulations designed to sharply pare down eligibility and reduce program costs.

Since such vigorous advocacy of the interests of the poor, especially in recent years, has not been a marked characteristic of Congress, the skeptic might be led to believe that there was more to all this sound and fury than a desire to preserve counseling services for AFDC mothers. Indeed there was. Along the way to 1973, ingenious state agency officials, first in California and soon thereafter in most

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other states, found that the combination of a federal commitment to open-ended matching and putty-like eligibility definitions in the original Ribicoff amendments constituted a financial bonanza for state treasuries.

Since the statutory language provided that all "past" and "potential" public aid recipients were eligible and that any state activity that could be squeezed under the rubric "social services" could be funded, state after state undertook an effort euphemistically labeled "refinancing." In practice, refinancing meant that the whole array of non-means tested services (i.e., middle-class programs), ranging from mental health clinics to vocational education, customarily financed by state taxes could now be shifted to the federal government. Referring to the 75 per cent federal share of program costs, one enthusiastic proponent of refinancing proclaimed, "You can earn $3 for every $1 you put up; it won't cost you a nickel. You just have to amend your state [social services] plan."

Amend they did. By 1971, California, the pioneer of the refinancing movement, was receiving $221 million, a sum equal to $500 for every AFDC family in the state. The catch, of course, was that it was not only California's 450,000 AFDC families who were getting the benefits but probably a good portion of its entire 20 million population. By the time that Mississippi, a state not particularly renowned for its generosity to welfare recipients, weighed in with a projected two-year jump in expenditures from $15 million to $450 million, it was clear that the original Ribicoff program had sprung a gigantic leak: Rather than a rehabilitation and services program for the welfare poor it had become a multi-billion-dollar subsidy to the middle class.

Given this context, it is not surprising that the OMB-HEW reform effort, begun during the halcyon days of the Nixon budget offensive, and designed to refocus the program on the original beneficiary group, proved no more successful than the other initiatives. Under the prodding of the potent lobby of state and local budget officials and welfare bureaucracies, Congress twice delayed implementation of the new HEW regulations, with hardly a word of serious debate. Whereas most agency rule-making proceedings attract only modest attention from the interested public and virtually none from Congress, HEW was flooded with thousands of protests against the regulations and subjected to direct intervention by numerous delegations from Capitol Hill. After two years of keeping a stiff upper lip, the resolve of the HEW-OMB policy makers eventually collapsed, paving the way for Congressional approval late in the ses-

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sion of a "compromise" settlement that largely maintained the status quo.

That there was little disposition on Capitol Hill to seriously disturb the program is attested to by the fact that the "compromise" passed the House on suspension calendar by a voice vote. That the program will continue to function as a form of backdoor revenue sharing, despite its anti-poverty characterization, is made clear by the fact that families with incomes up to 80 per cent of the national median will still be eligible for free services in the larger urban states, and that almost all families up to the actual national median income will be eligible in the others. As before, just about anything that can be described as a social service will still receive funding. Moreover, having had two years to indulge in righteous indignation against the Administration's assault on the poor, Congress can now rest assured that the social spending pipeline is still flowing, and that neither "human needs" nor the powerful lobbies that minister to them have been shortchanged.

Subsidizing the haves

If most federal social programs scatter benefits over a much wider portion of the income spectrum then their avowed objectives would suggest, a few deliberately redistribute economic resources to the top, and with hardly a word of protest. The federal health manpower programs are probably the most conspicuous example. In response to the widely advertised national physician shortage, Congress has steadily increased funding for medical and other professional health schools over the past decade. At present, health training institutions receive $1.3 billion annually, more than half of which is devoted to direct subsidization of student education costs.

There is little doubt that these programs have been successful in increasing the output of the nation's medical schools: Since 1963 the annual number of graduates has increased from 7,600 to more than 11,000, or by 45 per cent. These programs have been no less effective in easing the financing problems of the institutions and students involved. In combination with state aid, they have permitted the tuition share to drop to a minuscule four per cent of overall medical school revenues and to just 10 per cent of purely educational costs.

Amidst the general plaudits the health manpower programs have received for helping to alleviate the physician shortage, the fact that they fly directly in the face of fundamental principles of sound

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fiscal policy has been hardly noticed. Yet there are essentially two justifications for government subsidies of this type and the facts of life in medical education represent the inverse of both.

The first rationale is that there be insufficient output or supply, at least in terms of what is thought to be desirable compared to what the market actually provides. While the alleged shortage of practicing physicians is often blithely assumed to fulfill this condition, it actually does not because the relevant considerations are the potential supply of *students* and of financing for their education costs. And in regard to these factors there can be little room for argument. The medical school acceptance ratio is only 33 per cent for all applicants and barely 50 per cent even for those deemed to be fully qualified for training. The fact that these ratios have remained essentially unchanged for decades suggests that there is little need to induce additional entrants into the market. Similarly, an incredible 95 per cent of first-year medical enrollees—a ratio far higher than for any other profession—eventually graduate, and such graduates can presently expect an annual income somewhere in the range of $50,000. It requires little familiarity with economics to recognize that with success ratios of that order, private loan financing would be readily forthcoming to cover even the admittedly high costs of medical training, were no alternative sources available. That U.S. medical schools were deemed to be producing too few graduates in the 1950's and 1960's, therefore, reveals more about the entry control practices of the medical profession than about the economic justification for large-scale government subsidies.

The other argument for subsidization, of course, is the question of equity, in this case as it pertains to medical school access. In many instances it is undoubtedly true that even if accepted to medical school, and despite excellent graduation prospects, students with low-income or minority backgrounds might be unable to arrange for private loans. Yet the federal health manpower programs reveal little evidence of being based upon this rationale. More than 80 per cent of funds are distributed in the form of institutional aid, so that all students benefit equally; and even those funds which are offered in the form of direct student scholarships contain few stipulations as to need.

During the last year considerable controversy has developed over the future direction of these programs, with Senator Kennedy and other health care reformers insisting that each medical school assure, as a condition for receiving federal aid, that a fixed proportion of future graduates will practice in underserved areas. Despite their

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good intentions, and leaving aside their probable unworkability in practice, the current distribution-oriented reform proposals largely miss the point. The fundamental problem is that we are subsidizing medical schools to enroll students with average family incomes substantially above $20,000, so that for the small fraction of the cost of their training represented by nominal tuition charges they can look forward to future earnings placing them in the top five per cent of the national income distribution. This is surely income redistribution with a vengeance, but unfortunately in the wrong direction.

Higher education and funding priorities

In some degree, these observations apply to the entire range of the federal higher education assistance programs, an effort that now amounts to more than $5 billion annually. As a result of literally scores of obscure authorizations for traineeships, fellowships and other forms of graduate assistance, to take one example, the federal government now spends more than $300 million annually to subsidize graduate-level training for such diverse professions as social work, psychiatry, public health practice, language teaching, and educational counseling. Given the fact that many of these occupations are now suffering from a serious oversupply and that most command handsome salaries by any standard, a strong case can be made that these costs might be more properly borne by those who directly benefit. Yet when HEW proposed severe cutbacks during the 1973 budget control offensive, the far-flung higher education lobby soon had Congress worked into a fever pitch, and the graduate training subsidies were spared.

Indeed, the entire debate over financing higher education has gradually witnessed a strange reversal of roles during recent years. Since the adoption of the higher education amendments of 1972, it has been a conservative Republican Administration that has strongly championed shifting aid away from institutional grants and toward direct student scholarships; and even in this sphere, it has sought to move away from the traditional middle-class direct loan and grant programs in favor of the new Basic Opportunity Grant (BOG) program, which is tightly scaled to family income and would concentrate assistance on the lower-end of the income ladder. By contrast, the Democratic-controlled Congress has persistently backed a set of funding priorities heavily weighted toward institutional aid and the older, more middle-class-oriented student programs. In FY 1975 for example, the Administration requested $1.3 billion for

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BOG's and only about $160 million for institutional aid and the old student assistance programs. While the House appropriated the total sum requested, it reversed the internal priorities by authorizing only $660 million—just half the Administration request—for BOG's and more than $800 million for institutional aid and the other student assistance programs.

While there would be a potential case for broadly based federal support of undergraduate education if unlimited budgetary resources were available, it would be difficult to make such a case in light of current fiscal realities. Federal budgetary resources are severely constrained and, if anything, probably too large a share is already being devoted to higher education relative to other priorities. Even more important, the heavy institutional subsidization provided public schools at the state level argues strongly for an especially heavy low-income tilt in the distribution of the limited federal aid that can be provided. As shown by the studies of Weisbrod and Hansen and others, the effect of most state higher education funding programs, except in those few instances like New York where the tax system is relatively progressive, is to redistribute income from lower-income to higher-income families. At a minimum, the federal government should not compound this tendency.

Although much of the federal higher education financing effort, especially at the graduate and professional level, rests on highly dubious justifications, and its funding priorities have a generally regressive cast, it would not be fair to attribute this wholly to Congressional mendacity and willingness to appease the appetites of middle-class families and professional education interests regardless of the consequences. The deeper problem is that in this area, as in the case of most other social spending programs, Congress does not make policy; it simply distributes funds much in the manner of the old public works pork barrel, allowing "policy" to form implicitly and somewhat randomly out of the tugging and hauling of parochial interests and constituency needs. It is hardly surprising that the results of this kind of raw democracy in action are hardly optimal by any kind of disinterested standards.

Slicing the pie

As was suggested previously, the ubiquitous hold-harmless clause symbolizes much about the legislative priorities of Congress. The intense debate generated in the House and Senate chambers over Title I of the Elementary and Secondary Education Act (ESEA) in

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recent years is probably the best single illustration of this phenomenon. Not less than four times in the House alone during the 93rd Congress, amendments affecting the program occasioned that rarity known only to elementary school civics books: a full dress floor debate with most of the Members present and scores of them vigorously participating in the proceedings—all culminating in a close vote of the full House.

The troubled history and equivocal results of this $1.5-billion per year compensatory education program suggest there is good reason for debate. Launched in 1965 as a prized division of LBJ's army of anti-poverty programs, it was designed to raise the educational achievement level of the "poorest of the poor," and thereby unlock the door to job opportunity for millions of disadvantaged school children who would otherwise remain trapped in the cycle of poverty. Since then, nearly $12 billion in federal matching funds have been spent on the program, but there remains considerable question as to just how much of this has been aimed at the truly impoverished, and even as to whether funds actually spent on their behalf have done much to close the achievement gap.

The heart of the ESEA problem is that, despite the outpouring of anti-poverty rhetoric which accompanied its enactment, it has always been vulnerable alongside the vacuum created by the absence of a federal general aid to education program. Since the social pork barrel abhors a vacuum, it is not surprising that in both design and practice, ESEA has been stretched to fill the gap. The troublesome parochial school aid question and the ever potent bugaboo of federal entanglement in local school affairs have stood in the way of direct, general aid to education, but Congress soon found in ESEA a perfectly serviceable means to the same end, conveniently disguised in the rhetoric of redistribution and aid to the poor.

Thus, although 56 per cent of the U.S. poverty population is concentrated in the 50 largest metropolitan areas, more than 13,000, or 80 per cent, of the nation's school districts receive ESEA funding. The initial distribution of Title I funds to states, of course, is based on a strict count of the low-income and public assistance population. But once the funds reach the county level almost anything that ingenious school administrators can devise to serve as a proxy for the number of "disadvantaged" students within the county is allowed to be used in dividing up the funds among individual school districts. Moreover, the recent extension of the Act included no criteria at all for targeting funds within each school system.

The result of these loose distribution formulas is a substantial dis-

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sipation of Title I funds across a broad range of the public school population, rather than the much smaller percentage of legal eligibles. A 1970 survey, for example, found that 65 to 95 per cent of the students participating in non-instructional Title I programs (which account for 50 per cent of total Title I expenditures) were judged by their own teachers to have no critical need for the health, food, cultural enrichment, and counseling services provided. Another study found that six times as many students were participating in health programs as needed assistance and that nearly two thirds of those participating in cultural enrichment programs were similarly without need. It is no wonder, then, that ESEA funds are so widely distributed as to provide less than one hour per week of remedial instruction for each student participating. Since there is some evidence that, to be successful, compensatory expenditure and effort per disadvantaged student must attain a "critical mass" far in excess of what ESEA actually provides, it is not surprising that the results of compensatory education have been highly disappointing.

ESEA's difficulties, however, reach far beyond the question of design and administration. Despite eight years of operation, there has yet to be assembled any convincing proof that compensatory education significantly closes the achievement gap between disadvantaged students and their more affluent peers. As one observer commented after reviewing the reams of studies commissiond by the Office of Education: ". . . the results of evaluations appear to be virtually random. Students in Title I programs do worse than comparison groups as often as they do better."

This conclusion, of course, has been latent ever since the Coleman report showed that variations in school resources have far less to do with achievement disparities than social class and family influences do. So long as this thesis was mainly, or at least most vociferously, propounded by neo-conservative critics, liberals had some justification for reserving judgment. But now that even the pedigreed left-wing scholar Christopher Jencks has weighed in with the same conclusion, the fact that (in Jencks's words) "giving children better schools is not going to eliminate inequality in cognitive skills [nor] eliminate poverty and inequality among adults" has become difficult to ignore.

The politics of allocation

Despite this array of evidence, the recent Congressional debates over ESEA have not been about better targeting of funds—whether

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a critical mass of expenditures is needed to affect the achievement levels of the disadvantaged, or whether the poor might better be served by using the funds for some other purpose, such as income maintenance. Instead, the debate has dwelled almost entirely on the state allocation formula—in a word, over slicing the pie. Of some 19 amendments proposed in the House during last year's consideration of the Title I extension, fully 15 dealt with adjustments in the allocation formula.

Given the large expenditures involved and the obvious shortcomings of the program, it might be assumed that whether 1960 or 1970 census figures are plugged into the Office of Education computers, or whether the Orshansky index, a modified Orshansky index, or the latter plus the AFDC count is the appropriate poverty standard (all of these were heatedly debated alternatives), would be far down the priority list of concerns. The fact that they were nearly the exclusive preoccupation in the recent ESEA debate dramatizes quite clearly the limitations of Congressional social policy making. For a social program of the size and scope of ESEA, reaching into nearly every Congressional district in the nation, is, in the final analysis, an enormous *political* resource, as well as a mechanism for the delivery of government-financed services to selected beneficiaries. And given the atomistic character of the American political system, Congressmen inevitably find themselves treating social legislation more from the former perspective than the latter —sometimes by virtue of conscious choice and blatant opportunism, at other times as a sheer necessity of political survival.

Of course, to suggest that the pork barrel approach to social welfare spending is at least in part systemic does not mean that the very real element of individual culpability should be downplayed or excused. Not infrequently, undiluted cynicism reigns on Capitol Hill. Many Members openly admit to holding their noses when the annual $12 billion is appropriated for the veterans program—most of which benefits ex-servicemen who do not even have a hangnail to show for their harrowing experiences in uniform—or when impact aid funds are authorized for affluent school districts in whose plush auditoriums they have practiced their oratorical arts. Indeed, shortly before adjournment of the last session one Member was even aroused to public protest by the pork-barreling spectacle that marked Congress' hurried effort to pass a multi-billion-dollar public employment program. Whether due to haste or a flash of statesmanship, the House Education and Labor Committee had devised an allocation formula that very sensibly distributed most of the

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funds (75 per cent) according to the relative severity of unemployment in local labor markets. But when one of the House's leading liberal lights pointed out during floor debate that his amendment would increase the level of funding in fully 37 states by diluting the relative severity criteria (thus making all unemployed workers count equally), the change was quickly agreed to without so much as a recorded vote. As a result, each unemployed member of the labor force in Dallas, where the jobless rate is three per cent, will now have the same weight in the allocation formula as his counterpart in Detroit, the site of a veritable depression.

In most cases, however, the pork barreling is less conscious, more benign. Out of an amalgam of local boosterism, susceptibility to popular myths (like that of the "doctor shortage"), and lack of time or incentive for serious analysis of the propositions before them, Members usually vote for hometown pork and feel good about it afterwards. But whatever the relative roles of personal culpability and institutional forces, the end result is a horrendously costly, frequently inequitable, and usually ineffective way of dealing with the nation's domestic ills.

The great ideological charade

If the programs which comprise and the rhetoric which surrounds the social pork barrel are liberal in paternity, this distinction usually fades with the passage of time. Indeed, the political maintenance capabilities of the system are so strong that all except the most extreme and idiosyncratic conservatives are eventually brought into the consensus. There is, however, a process of evolution that often leads to the erroneous impression that there are serious ideological differences in Congress on social spending policy. In reality, there are not.

At the christening of each new domestic program, conservatives loudly complain about yet another boondoggle, more federal red tape and confusion, and a further drain on the over-taxed budget. Most of them vote for gutting amendments during the initial debate, although considerably fewer vote "nay" on final passage. In subsequent years, the ranks continue to erode so that many who initially opposed the program quietly vote for reauthorization and even more vote for annual appropriations. House Republicans originally opposed enactment of ESEA in 1965, for example, by almost a three-to-one margin. When it came up for renewal in 1974, however, a bare 15 votes were cast in opposition.

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By the time that the program has gotten into operation and become visible at the local level, nearly all of the potential "opposition" can be found—along with their Democratic counterparts—enthusiastically issuing press releases announcing grants and turning up for each cornerstone-laying or ribbon-cutting ceremony marking the kickoff of a new district project. Should some bespectacled budget analyst in the Executive Office Building propose that the program be reduced or eliminated, the retreat will be shown to have come full circle, as a chorus of reputedly conservative Congressmen gravely intone: "I'm four-square for cutting the swollen federal budget, but this is the wrong program at the wrong time in the wrong place." So many press releases sounding almost these identical words poured out of conservative Congressional offices during 1973's impoundment battle as to raise the suspicion that they all came off the same mimeograph stencil.

The life cycle of conservative incorporation into the social spending consensus is nowhere illustrated more dramatically than in the case of the community action program (CAP). At the time of its original adoption, House Republicans staunchly opposed the war on poverty, of which CAP was to be the main component, by a vote of 22-145. During the next few years, while local community action programs in many areas of the country were still in their militant "political action" stage, CAP became a rallying post for Republican opposition to the Great Society. As a consequence, the first extension of the Act in 1966 mustered only 15 Republican votes, with the program eliciting a torrent of denunciatory rhetoric from Republican orators during the fall elections of that year.

In the ensuing years, of course, CAP was gradually domesticized. This was in part a result of amendments which gave greater control to local governmental entities, and in part due to administrative decisions to channel an increasingly larger share of CAP funds through the so-called "national emphasis" programs—Head Start, Family Planning, Emergency Food and Medical Services, and Upward Bound—that were largely welfare and service oriented and posed little threat of disruption or controversy.

Since the delivery of "meals on wheels" is a far different proposition than dumping garbage on the steps of City Hall, the zeal of the Republican opposition steadily waned. Although by the late 1960's reams of studies questioning the effectiveness of the CAP program began to flow in, the chance to strike a solid blow against the program was foregone in favor of exercising a new-found opportunity to prime the social spending pump. In both 1969 and 1971, a

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substantial majority of Republicans supported reauthorization of the program.

One last effort was made by the true believers on the Republican Right to reignite the old anti-CAP wrath in connection with the Nixon budget offensive. But in a maneuver laden with no small amount of irony, a coalition of anti-poverty organizations retained a $25,000-a-month Washington lawyer to press the case for extension on Capitol Hill in the best big-time lobbying style. The lawyer, former Congressman William Cramer of Florida, a conservative Republican who himself had been a vociferous opponent of OEO in earlier days, soon proved highly adept at explaining to his former colleagues that the program had become "safe" and that "meals on wheels" and summer recreation programs were not items to be discounted come election time. They hardly needed convincing. By a more than three-to-one vote House Republicans registered agreement, as the highly touted drive to abolish OEO dissipated before the pragmatic realities of the social pork barrel.

The policy stalemate

This ability to co-opt the potential opposition is in no small way abetted by the conceptual murkiness of what passes on Capitol Hill for liberal ideology. For one thing, this ideology rarely rises above the level of symbol and vague sentiment: Gestures and demonstrations of concern about social problems are all important; impact and effectiveness are only secondary concerns, if they are considered at all. This has certainly been the case with OEO and the other remnants of the War on Poverty. Whether the earlier political type of community action was productive is a debatable argument. That the program in its current incarnation largely duplicates scores of existing local, state, and federal welfare services, provides a large payroll for middle-class social work professionals, and does little about the real income needs of the poor, is hardly open to dispute. Yet since termination of the program would be tantamount to abandoning the symbolic commitment to the poor, hard analysis is not undertaken and alternatives are not even considered; the fact that the program has become just one more item on the social pork barrel goes unrecognized.

For another thing, Congressional liberalism contains only a vague notion of who really needs government assistance. Standard rhetorical terms like "the little guy," the "working class," and the "average American" can encompass almost the entire electorate, and in liberal

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practice they usually do. During the 93rd Congress, for example, a coalition of liberal Senators, led by Senator Kennedy, attempted to attach a package of "tax reform" amendments to a minor bill that had already cleared the House. The Kennedy proposal, widely advertised in the press as a "redistribution" measure, included a stiffening of the minimum tax in order to increase the tax bite on the wealthy and an increase in the personal exemption for the purpose of compensating lower-class and working-class families for the rise in the cost of living.

Had it been adopted—which it fortunately was not—the actual impact of this proposal, however, would have been a complete caricature of its ostensible aims. In the first place, the revenue to be gained by stiffening the minimum tax amounted to only about one fifth of the loss from the increase in the personal exemption, so the primary effect would have been merely to compound the current budgetary squeeze and preclude increases in other liberal-favored programs. More important, the proposed $100 increase in the personal exemption would have meant a $14 break per dependent for the working-class family, compared to a $25 to $70 reduction for the upper-middle-class to wealthy family. Specifically, less than *three per cent* of the $3.5-billion revenue loss involved would have accrued to the benefit of taxpayers with adjusted gross incomes of under $5,000, because most of these already pay no income taxes; and significantly less than one third of the total would have benefited all taxpayers earning less than $10,000. By contrast, substantially more than $1 billion of the windfall would have ended up in the pockets of taxpayers with incomes of $15,000 per year and over. Obviously, vague rhetoric is a poor guide to policy formulation—but having long subsisted on it, and witnessed the political efficacy of the decisions which flow from it, Congressional liberals are not likely to adopt a more rigorous approach at any time soon.

Finally, the prevailing liberal faith in meeting unfilled "human needs" by means of social welfare programs largely ignores the fact that such government spending inevitably involves income transfers. Moreover, if this is to be anything more than a shunting of middle-class taxes through the public sector and back to middle-class beneficiaries, then some people have to be excluded from access to the goodies. But inclusion rather than exclusion is the normal liberal prescription. For example, Senator Humphrey, the patriarch of liberal pork barrellers, has long championed a universal, free school-lunch program, and even succeeded in getting it included in the 1972 Democratic platform. However, as most lower-income children

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already receive either free or heavily subsidized lunches and breakfasts, it is difficult to see what this proposal would accomplish. Fully $2 billion of the $3.7 billion incremental financing cost would accrue to the benefit of school children from families above the median income. Since these same families pay at least an equivalent portion of the federal tax dollar, the only apparent benefit of the proposal would be the privilege of buying school lunches on an annual purchase plan every April 15th.

George Wallace's old charge about there being "not a dime's worth of difference" between the two major parties is not far from the truth in terms of social welfare policy. Conservatives may profess to be vigilantly watching at the gates of the federal treasury, and liberals may profess to be striving to insure that America's least advantaged are given their due; but in reality, neither side is doing very much of either task.

In fact, conservative duplicity and liberal ideology both contribute to the dynamics and durability of the social pork barrel. Yet the resulting social policy stalemate cannot persist indefinitely. Sooner or later conservatives are going to have to break with the system or acquiesce in fiscal policies and in a growth in the share of national income devoted to "social welfare" that are entirely incompatible with their basic beliefs. Similarly, liberals are going to have to acknowledge the essential futility of attempting to subsidize the preponderant portion of the electorate in order to improve the lot of those genuinely in need, or forever fail to achieve their goals. To be sure, such a change in course would cause more than a little political discomfort for both sides. Delaying the day of reckoning, however, will only magnify the huge costs, both financial and social, that the nation is already paying for the present system.

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The Mundell-Laffer Hypothesis— a new view of the world economy

JUDE WANNISKI

THE United States has been passing through an economic nightmare. It seems like just the other day—and it was—that American economists of the first rank spoke confidently of "fine-tuning" the economy to assure a predetermined rate of economic growth within acceptable bounds of inflation and unemployment. And even those in the profession who scoffed at the notion of such fine-tuning, those who argued it could not be done in the fashion prescribed by the New Economics, were prepared to assert that other strategies—usually pertaining to the supply of money—could be called into play to keep the United States on the magic path of non-inflationary growth.

Obviously, the profession has been experiencing an intellectual crisis. Over a six-year period, the pragmatic Republicanism of Richard Nixon shot into the twitching patient every antibody the economic doctors of Cambridge and Chicago prepared. And always the vital signs declined. Money was tightened and money was eased. Mr. Nixon became a Keynesian and a "full-employment budget" was installed. Deficits were run on purpose and deficits were run by accident. The Phillips curve, a wondrous device by which politicians supposedly could balance unemployment and inflation along a finely calibrated line, was enshrined in the textbooks. The dollar

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was devalued and the gold window closed. The Japanese and Germans were reviled as being stubborn, and worse, efficient. The dollar was devalued again, then floated. Wages and prices were controlled through varied stages of stringency, and a jawbone was brandished. At the end of all these exertions, many are beginning to wonder whether the patient was sicker than had been thought or whether the medicine has been making him sicker than he was.

To be sure, the academic theoreticians who pushed these various prescriptions will now all argue that their own brand of medicine was not given time to work—and besides, the patient was poisoned by all those other medicines. They all have a point in that there is rarely enough time in the real world to see a diagnosis and a prescription through; politicians and the public will always want a remedy that doesn't require the patient to get much worse, for very long, before he gets better. That is one of the inevitable political constraints on economic policy, as distinct from economic theory.

But before one laments the constraints that the body politic places on our economic physicians, it is worthwhile seeking out another opinion. It is always possible there is an expert around with a superior diagnosis of our economic illness—one that does not require politically impossible prescriptions. And, in fact, there are *two* such experts around today: Robert A. Mundell, 42, a Canadian who is professor of economics at Columbia University, and Arthur B. Laffer, 34, of the University of Chicago's graduate school of business. For the past several years, they have attempted to effect what some would call a "Copernican revolution" in economic policy. And, with every passing year, they are getting a somewhat more respectful hearing from their fellow economists—though, of course, theirs is still very much a minority point of view.[1]

It is the purpose of this article to show how the Mundell-Laffer "model" of the world economy works, and why its implications are not politically unattractive—i.e., would not involve a period of suffering by the world's population in order to achieve improvement. The model is really quite simple and, except for its applications, is not even particularly novel. It is just, as Laffer says, "that nobody's thought much about it this way for about 50 years or so."

One of the reasons the Mundell-Laffer hypothesis is getting a respectful hearing these days is that it easily explains phenomena that other theories can explain only with immense difficulty and

[1] There is no joint Mundell-Laffer paper. Mundell, the prime mover, writes the theory. Laffer, more the empiricist, provides the data support, contributing slices of theoretical inspiration along the way.

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complication. Though they are not in the business of forecasting, Mundell and Laffer's predictions of what would happen as a result of particular policy changes have held up astonishingly well these past years. Laffer in 1971 said the U.S. dollar devaluation would not mean a turn from deficit to surplus in the U.S. trade balance. There wasn't one. In February 1973, when the dollar was devalued again, he said it would mean "runaway inflation" in the United States. In January 1972—almost two years before the Yom Kippur war—Mundell said the price of oil, and then of other commodities, would rise dramatically if the U.S. economic policy makers proceeded to do what in fact they did. Later in the year, he said that if the Western economies did what they in fact subsequently decided to do, there would be increased world inflation, a general rise in interest rates, and an accelerated use of the Eurodollar. In 1973, he bet an eminent U.S. economist $1 that U.S. inflation would be far worse in 1974 than 1973, and another $1 that sometime in 1974 the price of gold would hit $200.

Maybe Mundell and Laffer were lucky—right for the wrong reasons, as some may say. But it certainly would seem to be worth the effort to understand their reasoning—and, above all, to understand their general view of the economic universe and what it is in this view that fundamentally separates them from the great majority of their peers. Their policy prescriptions—which derive from a kind of synthesis of Keynesian and classical economic thought—make no sense unless one shares their perspective on the economic universe. After all, Columbus would have found it difficult to persuade Queen Isabella that sailing west to the Indies was good policy if he had failed to convince her that the world was round, not flat.

The world is a closed economy

This is where they start: The world economy is truly integrated and has been for a long time. The proposition sounds reasonable enough, perhaps even trite. Yet while most other economists accept the idea to a degree, the prevailing analytical approach to economic problems and policy is based on a quite different notion: that the U.S. economy is in large part independent of the economies of the rest of the world, especially now that monetary policies are not linked through fixed currency exchange rates. From this prevailing notion there follows the idea that, insofar as the U.S. economy experiences fluctuations in rates of inflation as the result of the economic policies of other governments, such disturbances are limited

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in scope by the U.S. volume of trade with the rest of the world. These disturbances must be small, the conventional wisdom argues, because U.S. trade is so small in relation to the whole of the U.S. economy. In 1971, when the dollar was devalued by 13 per cent, virtually the entire economics profession in the United States calculated that, because U.S. trade was only five per cent of GNP, the effect of the devaluation on the level of U.S. prices would merely be 13 per cent of five, or a little more than a half-point on the Consumer Price Index. This kind of calculation can be made only by viewing the United States as a closed economy, "with international relationships grafted on," says Laffer. But, they argue, the U.S. economy is not a closed economy; nor is that of any other nation. *The only closed economy it makes sense to talk about is the world economy.* One cannot understand the American economy within an American perspective; it must be viewed from the perspective of the world economy.

In simplest terms, what they are saying is that prices are tied together around the world, not only by the volume of goods shipped back and forth, but by rapid communication of price changes. To verify this, one of Laffer's students, Moon Hoe Lee, went to the trouble of studying nine countries from 1900 to 1972. He found that (1) their general price indexes indeed moved in step during the period, as long as their exchange rates were unchanged; and (2) that when a country devalued or revalued its currency, it experienced roughly equivalent amounts of inflation or deflation. (The only brief exceptions were observed when a country became isolated during wartime, Japan and Italy during World War II being the clearest examples.) What this means is that if a country devalues by 13 per cent against the rest of the world's currencies, you could expect that it would experience higher inflation than the rest of the world *until its prices had risen by 13 per cent more than those of the rest of the world.* So far from such a revision of exchange rates having only a minor effect—via foreign trade—on the Consumer Price Index, it has an exactly proportioned effect relative to the price level in the rest of the world.

This isn't exactly a revolutionary idea but, as Laffer says, it hasn't been though about for quite a while. Here's J. Lawrence Laughlin writing in 1903:

> The action of the international markets, with telegraphic quotations from every part of the world, precludes the supposition that gold prices could in general remain on a higher level in one country than another (cost of carriage apart), even for a brief time, because, in order to gain

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the profits merchants would seize the opportunity to send goods to the markets where prices are high.

Laughlin talks about gold, but implicit in his statement is that apples are affected similarly. Say there are a million apples in a country selling at 10¢ each, but that there exists an unqualified demand for 1,000,001 apples. If the extra apple can't be gotten from the rest of the world at less than 11¢, cost of carriage apart, *the price of all apples will rise to 11¢*. In this illustration, the volume of trade involved is only one part in a million—but price still changes by 10 per cent.

Going a step further, Mundell has revived the proposition, and Laffer has documented empirically, that money, like apples and gold, is also subject to these international forces of supply and demand. When, for example, there is an excess demand for money in the United States relative to the rest of the world, we will import money and run a balance of payments surplus—i.e., more money will be coming into this country than is going out. When there is an excess supply of money in the United States, we will export money and run a balance of payments deficit. This idea also has its roots in earlier centuries, but is still a minority view among economists everywhere. Balance of payments deficits are thought to represent not a market phenomenon but a structural problem—i.e., "capital flight" or "undercompetitiveness." Laffer has further demonstrated that when a country's growth rate accelerates relative to the rest of the world its balance of *trade* worsens; and vice versa. (As a child grows, it consumes more than it produces.) *But such a deficit is not cause for alarm.* What is then happening is something perfectly natural. As long as its government does not speed up its own money creation, the country will export bonds to pay for its deficit in trade. All that is occurring is that the rest of the world has decided the country in question, with its higher growth rate, is a good place in which to invest. (Just as parents invest in their growing children.)

This way of looking at deficits and surpluses in one's balance of payments and balance of trade is strikingly different from the prevailing way, and has large implications for economic policy. But more about that later.

Myths of devaluation

While the above approximates the Mundell-Laffer long-distance view of the economic universe, it is necessary to move in closer and examine the terrain piece by piece before the direction of policy

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becomes apparent. A most important thesis, again one that cuts against the predominant thinking, is this: *When money supplies and currency exchange rates change, the terms of trade remain unchanged.* Somewhere at the root of our economic policies of the past several years lies exactly the opposite assumption.

Put simply, what Mundell and Laffer say is this: If a bushel of U.S. wheat can be traded for a bottle of Italian wine when $1 equals 100 lire, then, even though the United States devalues the dollar so that it is only equal to 80 lire, the bushel will still trade for the bottle. There may be a temporary confusion, which economists call "money illusion," but it is only temporary. That is, the U.S. farmer may temporarily accept 80 lire in payment for his wheat, because it still equals $1—and his first interest is in dollars. But when he discovers that $1 is now worth only four-fifths of the bottle, he will *insist on getting $1.20 worth of lire so he still gets the whole bottle.* As a result, *the dollar price of U.S. wheat goes up by the full amount of the devaluation.* Or the lire price of Italian wine goes down.

It is thus the contention of Mundell and Laffer, borne out by considerable empirical evidence, that devaluation has no "real" effects, but results only in price inflation in the devaluing country relative to the country or countries against which the devaluation occurs. By reducing the amount of goods its money can buy, the devaluing country creates an excess demand for its money. If it simply prints more money, there is no balance of payments improvement—which was what devaluation was supposed to achieve. If it doesn't, its citizens will simply import money (by exporting bonds) to satisfy the excess demand, and this will show up as a brief "improvement" in the balance of payments.

But isn't it true, as the textbooks and newspapers have been saying for a generation, that when a country devalues, the goods it imports become more expensive, so it buys fewer of them, while the goods that foreigners buy from it are cheaper, so the foreigners buy more of them? And the net result is a nice improvement in the devaluing country's balance of trade? The answer is: No.

Laffer points out that by looking only at what happens to the *demand for imports* in each country following a devaluation, the textbooks see only half of what happens. What about the *demand for exports?*

When the United States devalues its currency, for example, the goods it exports fall in price in terms of foreign currencies. Under normal supply and demand conditions, the residents of the United States should then buy more of its export goods and have less in-

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centive to produce them. Abroad, the goods foreigners export to the United States rise in price relative to U.S. currency. They should then have less incentive to buy their own export goods and want to make more of them, increasing exports to the devaluing country. This would mean the U.S. trade balance would worsen in real terms if it devalued.

Here, Laffer is merely pointing out the logical inconsistencies of the current theory; in fact, he argues, devaluation only invites inflation and will not affect the trade balance. His empirical study of 15 devaluations between 1961 and 1967 shows no relationship between devaluation and improved trade balances. In most cases, trade deficits in fact worsened in the years following a country's devaluation; simply by the law of probability—since there is no causal relationship—trade balances should improve half the time and worsen half the time.

"Most of Great Britain's economic problems over the last 30 years have come about because of London's fetish with the trade account," says Mundell. "It is forever trying to increase exports and decrease imports, and in the process of trying to send more goods out and allow fewer in has systematically reduced the efficiency of its economy." It has also, of course, experienced massive inflation. West Germany, on the other hand, has accepted a series of major currency appreciations that should have doomed its trade balance. Yet its domestic economy remains vigorous and its trade balance in surplus, and inflation has been very moderate.

Exchange rates need never change

According to Mundell-Laffer, the world be much better off with a system designed to keep exchange rates permanently fixed. If 2.5 Deutschemarks will always be equal to $1, or 300 yen always equal $1, all currencies would be identical except in name. *The world would in effect have a common currency.* Interest rates, prices, and the rate of inflation would then be the same everywhere, broadly speaking, just as they are within a large country like the United States with its common currency.

In the Mundell-Laffer scheme of things, a common currency is not a utopian fantasy; it has been around before. For decades prior to World War I, the world had a simulated common currency as national currencies were tried to the pound sterling and the pound was fixed to gold. In the years after Bretton Woods (1944) until about 1967, or even 1971, the world had a simulated common cur-

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rency bound to the dollar. The system was flawed, but still enormously successful.

There are substantial benefits to be had, by the world and all its component parts, through use of a common currency, simulated by a properly constructed fixed-exchange-rate system. Conversely, the world and its component economies are now paying an enormous penalty for the absence of a common currency—the penalty of rampant inflation. But before the benefits of a common currency are examined, consider the supposed penalties of not having an independent national currency. Even if, as Mundell and Laffer claim, devaluation does not improve the U.S. competitive position in the world and only causes price inflation, isn't monetary policy useful in stimulating production and employment in the United States, making it worthwhile to retain national control over it? Again, say Mundell and Laffer, the answer is no.

Just as trade between a U.S. wheat farmer and an Italian winemaker is only stimulated momentarily by the confusion of an exchange rate change, so there is no lasting stimulation to commerce internally from pumping money into the system faster than the system is demanding it—i.e., beyond the real growth demands of the economy. There may be a brief confusion in the terms of trade between Kansas farmers, California vintners, and Detroit automakers, or the workers who are paid to produce these goods. But there will be less and less confusion as they learn to read the signals and extract their meaning. As soon as this has been accomplished, the overwhelming effect is price inflation. And, because monetary stimulation increases the rate of inflation, thereby "taxing" cash balances and other financial assets, there is an immediate lowering of real income and offsetting subtraction from output. If the horse will not drink if there is a gallon in the trough, you can't make him drink by adding liquidity.[2]

If monetary stimulation can increase production only by increasing someone's credit at the expense of someone else (a creditor who is paid off in inflated currency, a contractor who has agreed to supply goods and services at a fixed price, or a worker tied to a wage contract), the increased production gained by such deceptive means can be of value to a politician only insofar as the cost of price inflation can be pushed far enough into the future so that some other

[2] At one time Mundell believed with the rest of the profession that the government could retard the economy by contracting its money supply, but after so much government manipulation over so many years private commerce has become exceedingly adroit in switching to money imports and substitutes, chiefly trade credit and credit cards, both of which are sources of liquidity.

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politician will have to deal with it. If the market becomes conditioned to see immediately through the deception, and discounts the future accordingly, the politician gets no gain whatever.

On the other hand, there are distinct advantages to the politician, and to the economic interests of his constituency, in a common currency or a properly constructed fixed-exchange-rate system.

The "bonus" of a world currency

The world economy gets a bonus, something extra, by having the economies of scale of a common currency. On narrow grounds, even the opponents of fixed rates agree with this. But Mundell and Laffer go beyond the narrow grounds.

Here is the *usual* financial argument on behalf of fixed rates: Suppose each of the 50 states of the U.S. had its own monetary authority and its own currency. Interest rates and the rate of inflation would vary widely. Business would still be transacted between states, but in each interstate transaction requiring a contract both buyer and seller would have to insure themselves against a change in the exchange rate, say between Kansas and Nebraska. This effort would require a sizable layer of personnel, expertise, and capital, which would otherwise be doing something more useful. As always, consumers would pay higher prices for everything, the cost of "hedging" being added in at the retail level. The dollar cost of providing "hedges" between 50 currencies would run into billions per year.

It may be argued that such an overhead expense is not really a colossal amount of money to pay in order to retain the advantages of independence. In the same way, if it were really deemed important by national governments to have independent monies, the extra tens of billions of dollars worth of resources required to maintain commerce in a world of floating exchange rates could be defended. But Mundell and Laffer identify the costs of floating in a different dimension as well. It is not only that the floating system has financial costs because of added coverage requirements, but also that *there are dramatic and inescapable increases in the amount of error in a system of many, rather than few, monetary authorities.* This point is crucial to an understanding of why the world economy is now in such a mess. It becomes obvious why Mundell can write so casually that, throughout history, "the gains from using a common international medium are so great that some means of creating one have always been found."

Again, consider Kansas and Nebraska. If each had an indepen-

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dent monetary authority, each authority would have to be considerably wiser and more efficient than if they arranged a compact to pool their mistakes. Imagine that on a given day in July, there are a thousand economic transactions in Kansas that have to be made with the available supply of money. If the Kansas monetary authority erred on that day by not anticipating the precise number of transactions and the quantity of money required to make them, one of two things would happen. If the amount of money were insufficient, some of those thousand transactions could not be completed at prevailing prices. Prices would have to fall until the amount of money were sufficient. If prices did not fall (which is likely in that prices seem to go up easier than they come down), some of the transactions would not be completed unless money substitutes were available. Which means the supply of goods would have to fall, resulting in lower output and higher unemployment in Kansas.

Alternatively, if the Kansas authority overshot the mark and produced too much money, all the transactions would be completed, but because buyers had more money than sellers had goods, the prices of goods would be bid up until supply equaled demand. So, on that day in July, if too much money is supplied, there is inflation; if too little is supplied, there is some deflation and some reduced output.

On that same day, the Nebraska authority is having a similar problem. With so many transactions to be completed, only by miraculous good luck is it going to produce the precise amount of money required.

But consider what happens if the Kansas and Nebraska monetary authorities agree to buy and sell each other's currencies at a fixed rate, say one Kansas dollar for one Nebraska dollar. If this is so, and Kansas produces $100 too little money to effect its 1,000 transactions, and Nebraska produces $100 too much, a party in Kansas will observe there are 100 too many Nebraska dollars and 100 too few in his own state. He then borrows 100 Nebraska dollars and presents them at the Kansas monetary authority. In accord with the Kansas-Nebraska agreement, he gets the 100 Kansas dollars he wants for the 100 Nebraska dollars. With this transaction, each state has precisely the amount of money it needs and there is no unemployment in Kansas and no inflation in Nebraska. On the following day, Kansas can overshoot a little and Nebraska undershoot a little, and over the course of months—and certainly years—they can make sure that the use of each other's money nets out to roughly zero. That is, neither state will have a balance of payments deficit or surplus.

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But what if, you will wonder, both Kansas and Nebraska undershoot at the same time? Say Kansas is short $100 and Nebraska short $50. In sharing the error, both come up short $75, which means Nebraska is worse off than if it didn't have the agreement, but Kansas is better off. But even if one is going to assume that Nebraska will be consistently right and Kansas consistently wrong, it is still to their mutual advantage to compromise their errors—if only because each gains from the other's prosperity and loses from the other's depression.

This is not simply a theoretical example. *It is, in fact, exactly the way the 12 Federal Reserve Districts operate,* with each responsible for issuing currency in its region. The districts have daily, monthly, and yearly balance of payments deficits and surpluses with one another, but they are so attuned to correcting the money supply to fit demand that the deficits and surpluses are not even apparent to the public, which believes there is only one U.S. currency instead of 12. (Check the left center of any bill for the issuing bank.)

The Bretton Woods system

This is almost, but not quite, the way the Bretton Woods system operated. Instead of setting up a system that would approximate the fashion in which the 12 Federal Reserve Districts correct balance of payments differences with each other, by expanding or contracting the money supply, the Bretton Woods agreement tried something else.

Imagine, in the above example, that instead of all 50 states balancing payments with one another by expanding or contracting the money supply, one state had a different role. New York, say, would not have to stay in balance with the other states. Theoretically one state could be excused, because if 49 states have zero balances, the 50th automatically has a balance of zero. New York could then use this extra measure of freedom by making sure that the system *as a whole* had "proper" monetary policy, so that with economic growth in the system *as a whole,* commerce would not be hindered by a paucity or excess of money growth.

What, though, is the *proper* quantity of money? That is the question New York would have constantly to decide. The answer goes something like this: The chief cost of excessive expansion of money is the strain put on the availability of natural resources. If New York raised the quantity of money at too rapid a rate, it would increase the nominal amount of transactions. But, as previously mentioned,

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this would come about through the destruction of the real value of someone's financial assets.[3] The increase in nominal transactions generated by this artificial means—inflation—results in a more inefficient use of the nation's resources than would otherwise occur. One way New York could solve its hypothetical problem of determining the proper rate of money growth would be to adopt a metal as money, such as gold, thereby tying money creation directly to a natural resource. This, too, is not a theoretical example. It is the way the world economy worked for decades, even centuries, up to 1914. During this period, Great Britain fixed the price of gold by regulating the quantity of money in the world and by buying and selling gold, doing so with such precision that all the while it maintained only a very small inventory of gold. Nor was there a general international monetary agreement in this period. The rest of the world simply found it so advantageous to fix their currencies to the pound sterling, while sterling was fixed to gold, that it occurred *ad hoc*.

This was also the Bretton Woods system, arrived at formally. The United States played the role for the world economy that, in the hypothetical example, New York played for the 50 states, and that Britain played in earlier centuries. Although the Bretton Woods system was flawed, it did provide the framework that made possible a quarter-century of uninterrupted prosperity and growth in the Western economies. The flaw, however, led to its abandonment.

The flaw in Bretton Woods lay in the fact that the people who were responsible for running the system didn't know how it was supposed to work. Go back to our hypothetical New York example. If 49 states are maintaining external balance by expanding or contracting their money supply, and New York is expanding the quantity of money to accommodate economic growth in the system as a whole, then if New York expands too fast everyone in the system has too much money and there is a general inflation. If the other 49 states do not desire to have inflation, they have to print less of their own currencies. If New York keeps pumping out money, and the other 49 states are contracting their monies accordingly, the result is inevitable. At the extreme, everyone in the United States is transact-

[3] Those who lent money at a fixed rate of interest, or contracted to supply goods or services at a fixed price, or who agreed to work for a year or longer at a fixed wage, discover that the addition of these marginal transactions, through excessive monetary expansion, has put prices up, and their wages have lost purchasing power. While those who borrowed or bought enjoy an offsetting benefit, the net effect is a weakening of the relationship between reward and effort. Henceforth, if excessive policies continue, they will demand compensation in the form of higher interest rates, higher fixed-price contracts, and higher wages and/or cost of living adjustments.

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ing business with New York dollars. All the states are running huge surpluses in the balance of payments with New York, and New York is running a stupendous balance of payments deficit. But New York doesn't care. It has become the sole supplier of money, and as banker of the game receives in return for its banking service the real goods of all other states.

So it was with Bretton Woods. For a while, everything worked well. After World War II, the United States had most of the gold in the world, far more than it needed. It didn't worry about providing precisely the correct growth of money supplies, but acted in a way that made sure there was more than enough money rather than too little. When the war-torn countries got on their feet, it still did not matter that the United States was overexpanding its money creation, because the others wanted some of the U.S. gold to hold for a rainy day, and they were now prosperous enough to acquire some. By restraining its money growth, West Germany, for example, would import dollars. If the number of dollars were more than needed by West Germans, after being turned in for Deutschemarks, the West German monetary authority, the Bundesbank, would have some left over to buy U.S. gold. After several years of this, the U.S. gold hoard was down from $24 billion to $12 billion, valued at $35 an ounce.

In this arrangement, all the economic incentives drove the United States to create more money than was really needed, and forced the other countries to produce less of their own currencies if they wanted to avoid inflation. People and enterprises all over the world did more and more of their business in dollars, finding the United States always there to supply money when needed, while their own monetary authorities seemed to be cutting back. In exchange for its real good, the banking service, the United States was receiving other real goods—autos, radios, etc.

But it's one thing for New York to drive everyone else's money out of the other 49 states, and quite another for the United States to push out foreign currencies by running constant balance of payments deficits. For the most part, the U.S. deficits were not the fault of the United States, but the natural result of its having been the most efficient supplier of money in the world. The dollar became, says Mundell, "the major intervention currency, a reserve asset for central banks, the standard of contract, the standard of quotation, the invoice currency, the major settlement currency, the major reserve asset for commercial banks, the major traveller's currency, the major external currency for indexing bonds, and the major clearing

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currency." In so many ways, foreigners were demanding dollars rather than their own national currencies.

Gold and dollars

Such was, and still is, the power of the dollar, deriving from the power of the American economy. Just as Kansas is the most efficient supplier of wheat, and Brazil the most efficient supplier of coffee, so the United States is the most efficient supplier of money. It would be ridiculous to expect Kansas to run a zero balance of trade in wheat, importing as much as it exported, or Brazil a zero balance of trade in coffee. So too, it was imperative that the United States run ever increasing deficits in its export of money. Bretton Woods broke down because U.S. politicians and economists did not understand this, and thus did not do the simple things required to perpetuate international economic stability.

What was overlooked was the efficient use of gold in providing a control mechanism and an error signal, as to when the United States was supplying too much money or too little. If the world economic system's real growth, year after year, would average three per cent, and the increase in the world money supply would average five per cent, there would be a world inflation rate of two per cent. As a purely private commodity, gold in 1944 at $35 was overpriced. But as world prices moved up year after year, and gold remained at $35 an ounce, eventually it became underpriced. By 1960, external demands for U.S. gold became so great at this bargain price that the U.S. government would sell gold only to other central banks. What emerged then was a collective agreement among central banks not to reduce further U.S. gold stocks. But the gold pool thus formed broke down in 1968 when gold losses to the private market became serious.

According to Mundell and Laffer, what the United States could have done to avoid the last decade of grief was to have concentrated on keeping the dollar more attractive than $35-per-ounce gold. Neither individuals nor central banks would come to the U.S. Treasury with dollars and demand their conversion into gold as long as the level of real growth in the world called for X number of dollars and only X number were supplied. If the United States was afraid of "losing" any more of its $12 billion gold hoard in 1967, it need only have acted in the following fashion: Whenever a foreigner holding, say, $100 showed up and demanded an equivalent amount of gold out of the Treasury hoard, the Federal Reserve would know

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it had mistakenly issued 100 too many dollars. By contracting the money supply in that amount, the Fed would only have to sit back and wait: Somebody else in the world, needing 100 dollars in order to make a transaction and finding the world was short by that amount, would come to the Treasury with the equivalent amount of gold and demand dollars.

Instead, by partially closing the gold window in 1968, the United States only succeeded in making the dollar less attractive relative to gold and began the process that culminated in the current economic nightmare. Immediately, the private market developed an unofficial price of gold higher than $35 an ounce. This effectively *immobilized* the gold held by central banks as reserve assets. Why? Central banks hold reserves as a cushion against unexpected international demands, arising from an internal crop failure, for example. But if such demands arose while gold was selling unofficially at higher than $35, the central bank would have to give up its gold at the official price and lose the difference. Every central bank thus locked up its gold and began scraping together new reserves—i.e., dollars. The U.S. central bank, of course, didn't have this concern—acquiring dollar reserves—because it is the central bank that creates dollars.

The demise of Bretton Woods

At the time, the popular belief in the United States was that the Western European and Japanese economies were amassing these dollar reserves by running trade surpluses with the United States. There was a common vision here of a Japanese manufacturer, using cheap labor, peddling a television set here for dollars, then simply banking the dollars. An American would lose a job, and a substitute job would not be created because the dollars earned by Japan would not be spent. The U.S. economy had become "uncompetitive," or so the story went, and as the balance of payments deficits mounted, the idea took hold that the reason for all this was that the U.S. dollar had become "overvalued."

What Mundell and Laffer say actually occurred was that, as foreign central banks immobilized their gold reserves, "money" became scarcer in these countries. In order to transact business, foreigners borrowed dollars and turned them in at their central banks for their own currency, and month after month the foreign central banks would show larger holdings of dollars. To most Americans, this looked pretty frightening, since these dollars were perceived as claims against U.S. goods and services. *What was not apparent*

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in the balance of payments deficits was the original transaction, the foreign "borrowing" of dollars, which meant that the United States had an equal and offsetting claim against foreign assets.

In a world economy whose growth depended on a proper growth of the common currency (i.e., the dollar), the United States under the Bretton Woods arrangement would have to run ever larger balance of payments deficits for everyone's good. But Mundell perceived that, by forcing the immobilization of gold, the United States intensified this process and increased its deficits beyond the "normal" level. Then, instead of regaining control of the deficit by tightening up on dollar creation, which would have made possible once again the conversion of dollars into gold (or creating a world money into which the dollar was convertible), a grievous policy error was made. President Johnson sought to slow the outflow of dollars to reduce the U.S. payments deficit, first by voluntary restrictions on U.S. overseas investment (1965), then by making it mandatory (1968). A series of regulations was put in place to keep dollars from going abroad. The result was that the private market found a way around the U.S. regulations, and through financial innovation created a much worse headache for Washington. As Mundell stated in April 1972:

> Failing an international money, a market solution will always develop, but it is one field in which market solutions are not optimal. The commercial banks, using the dollar, have now created an international money. It is the Eurodollar system or the international dollar system.

The financial innovation, which has taken on a life of its own, was the private substitute for the imperfectly working official system. The foreign branches of U.S. commercial banks accommodated the thirst for dollar liquidity abroad that the U.S. government was trying to choke off. Because foreign deposits of U.S. dollars are not subject to the reserve requirements imposed against domestic deposits, the banks could and did become efficient *private creators of money.* When the Fed slowed its creation of dollars, the Eurodollar market speeded up its creation, and vice versa. In an important 1974 empirical study, Laffer found this relationship to hold in each of the last 14 years. *The Federal Reserve could now only kid itself into thinking it could slow down the economy by contracting money growth, or stimulate the economy by expanding money supply.* The marketplace had found a substitute for the Fed.

In their imperfect understanding of what was happening in the world economy from 1967 on, U.S. policy makers dealt a quick *coup de grâce* to the Bretton Woods system. In Mundell's words:

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> No event in history can be said to have a single cause. But if one were seeking the most important policy origins of the 1971 [monetary] crisis one would have to blame it on excessive monetary looseness in the U.S. in the first six months of 1971, when monetary expansion was more rapid than in any comparable period in a quarter century! . . . The monetary acceleration exaggerated the overflow of dollars and engulfed Europe in dollar liquidity in the spring of 1971. In August, European central banks demanded gold. Rather than pay it out, the U.S. suspended convertibility. The 1934-71 era of $35 an ounce became a closed book in history.

There followed, between August 1971 and February 1973 (when currency exchange rates were set on a common float), a further comedy of errors. U.S. policy makers, hypnotized by the idea that the U.S. economy was suffering from an overvalued dollar, "won" a 13 per cent devaluation of the dollar in the agreement Treasury Secretary John Connally got from foreign ministers at a meeting in the Smithsonian Institution. The U.S. officials grumbled that the devaluation should have been three or four per cent higher to get all the benefits. As events demonstrated, there were not going to be any benefits at all.

Recreating the "money supermarket"

In the Mundell-Laffer perspective, the world after 1944 had enjoyed all the efficiencies and economies of scale of a "money supermarket." But with flexible—then floating—exchange rates, the supermarket would close and be replaced by "mom and pop" money stores. It is the global equivalent of what would suddenly happen if each of our 50 states were forced off the common U.S. currency into independent monetary systems.

Nor will Mundell and Laffer be surprised if the world comes back to a money supermarket, a fixed-exchange-rate system that again tries to approximate a world currency. In June 1969, at a conference celebrating the 25th anniversary of Bretton Woods, Mundell took note of the powerful forces driving toward exchange-rate flexibility and predicted that by 1980 the world would have tried it, abandoned it, and turned away from any further advocacy of it. It will probably not take that long. Already, many U.S. officials no longer look upon dollar depreciation as signaling an improvement in the U.S. "competitive" position. And West German bankers, economists, and politicians no longer worry that an appreciation of the Deutschemark will harm the German economy. Once this reality is accepted, the "political impracticalities" of putting together a world currency

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vanish. If politicians can see that their internal economies do not benefit from depreciation of the currency, and if they further see that their internal economies cannot be stimulated to increased output and decreased unemployment by money creation, they will willingly give up this device in order to gain the enormous benefits of the money supermarket, the common currency.

Once this political problem is put aside, all that Laffer and Mundell see is a difficult, but straightforward, engineering problem. In a dozen different ways, the mechanism can be reconstructed so that the benefits of Bretton Woods are back without the flaw of the system.

Thus, instead of all currencies tying to the dollar, and the dollar tying to gold, all currencies can tie to the International Monetary Fund's Special Drawing Rights (SDR)—"paper gold"—which in turn fix the price of gold. The difference is subtle, but it removes the worst problems of the Bretton Woods system. Instead of the United States getting all the banking profits that were accruing to it because of the international dollar standard, each nation linked into the system would get a proportional share of the profits. The dollar would still be powerful, but the United States could not, as DeGaulle once complained, echoing his friend and adviser Jacques Rueff, enjoy "a deficit without tears." The Eurodollar market would be replaced by the SDR market, and while the dollar would still be dominant, it would not be as conspicuous. And in holding the price of gold at arm's length instead of at the pivot of the system, the West could protect its monetary system should the Soviet Union or South Africa—the biggest producers of gold—suddenly try to dump the metal on the market and reap unreasonable rewards. With this SDR anchor, the finance ministers of the West would be able calmly and precisely both to maintain external balance and to increase world money in the desired and appropriate amounts.

The economic and social costs of not having such a system operating since 1967, and especially since 1971, have been colossal. Monetary discipline ended when the world moved away from convertibility and onto flexible rates. Much of the world inflation has resulted from the breakdown of Bretton Woods, bringing in its train the crisis in confidence in Western institutions and doubts about the appropriateness of free economies in the modern environment. In return for this mess, the United States now has an independent monetary policy, which amounts to a "right" to have more unemployment when policy errs on the side of tightness and the "right" to have more inflation when policy errs on the side of looseness.

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Dealing with "stagflation"

To deal with the domestic economy, the U.S. policy maker operating under a fixed-exchange-rate system would still be left with fiscal policy, which is all that is necessary. Since 1961, Mundell has argued *that monetary and fiscal policies are totally distinct policy instruments that can be employed for separate purposes and even utilized in opposing directions.* Monetary policy is the appropriate instrument to maintain external balance; fiscal policy is the appropriate instrument to maintain aggregate demand and internal balance. *If the world economy has inflation and unemployment at the same time, the proper policy mix is tight money and fiscal ease.* The latter should preferably take the form of tax reductions although Mundell agrees that government purchases of good and services will also have beneficial effects.

The essence of this revolutionary idea is that *with a given supply of money, increasing unemployment in the modern age almost certainly means an increase in inflation.* In an earlier age, when there were no unions and only minimal welfare and unemployment benefits to those unemployed, a slowing in production would translate itself into lower money wages. Today, an increase in unemployment translates into lower money wages only over a long period. The supply of goods and services simply declines, and the supply that is produced is bid up in price by the employed (with their still high wages) and the unemployed (with their transfer payments).[4]

Mundell's first explicit public insistence that the current U.S. "stagflation" called for tax-cutting and tight money was made in April 1971 at a conference in Bologna, Italy, on world inflation. The 180-degree turn in the Ford Administration's policy in January 1975 came in part as a result of Laffer's presentations in late November to White House chief-of-staff Donald Rumsfeld. Laffer, who took the insight from his friend Mundell and refined it to embrace the

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[4] Taxes should be cut and government spending maintained through deficit financing only when a special condition exists, a condition Mundell and Laffer say exists now. "There are always two tax rates that produce the same dollar revenues," says Laffer. "For example, when taxes are zero, revenues are zero. When taxes are 100 per cent, there is no production, and revenues are also zero. In between these extremes there is one tax rate that maximizes government revenues." Any higher tax rate reduces total output and the tax base, and becomes counterproductive even for producing revenues. U.S. marginal tax rates are now, they argue, in this unproductive range and the economy is being "choked, asphyxiated by taxes," says Mundell. Tax rates have been put up inadvertently by the impact of inflation on the progressivity of the tax structure. If the tax rate were below the rate that maximizes revenues, tax cuts would reduce tax revenues at full employment. But a multiplier effect operates if the economy is at less than full employment, and the tax cut then

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debilitating effects of transfer payments, also argued the case in a November memorandum to Treasury Secretary Simon:

> The best program to combat inflation simultaneously reduces money growth and increases real output growth. In order to increase real output growth, it is first necessary to focus on why people, machines, land, and other factors of production choose to be employed. Secondly, it is necessary to focus on why firms choose to employ these productive factors.
>
> It is taken here as a simple truth that in part productive factors' choice to work is based upon their ability to earn after-tax income. It is likewise taken as a virtually obvious proposition that the more an employer has to pay his factors of production the less he will want.
>
> Marginal taxes of all sorts stand as a wedge between what an employer pays his factors of production and what they ultimately receive in after-tax income. In the case of payroll taxes, for example, if an employer pays an employee $100 he must also pay his share of the social security contribution of about $5.50. Thus the use of the employee's services costs the employer $105.50. The employee on the other hand has $5.50 deducted from his payroll for his share of the contribution and therefore receives $94.50. . . . The $11 wedge is only the social security taxes. In addition to these taxes, there are also income taxes, sales taxes, property taxes, state and local taxes of all sorts, etc. At our current levels these tax wedge effects are very significant.
>
> In order to increase total output, policy measures must have the effect of both increasing firms' demand for productive factors and increasing the productive factors' desire to be employed. Taxes of all sorts must be reduced. These reductions will be most effective where they lower marginal tax rates the most. Any reduction in marginal tax rates means that the employers will pay less and yet employees will receive more. Both from the employer and employee point of view more employment will be desired and more output will be forthcoming.

What is especially interesting about this line of reasoning is not its heterodoxy. Heterodox it most certainly is: For more than a generation conservative economists have been insisting that inflation must be fought with monetary and fiscal restraint, while liberal economists have been demanding monetary and fiscal ease to com-

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raises output and the tax base, besides making the economy more efficient. Even if a bigger deficit emerges, sufficient tax revenues will be recovered to pay the interest on the government bonds issued to finance the deficit. Thus, future taxes would not have to be raised and there would be no subtraction from future output. Tax cuts, therefore, actually can provide a means for servicing the public debt.

In May 1974, Mundell said the U.S. economy needed an immediate tax cut of $10 billion, or as the economy deteriorated, the figure would grow. In October, he said the implied tax cut should be $30 billion; in February, both he and Laffer moved the figure to $60 billion. The tax cut numbers are only "implied" in the sense that Mundell and Laffer believe deficits would not materialize in those amounts since the tax base would rise; employment, price stability, and revenues would be optimized by putting the unemployed resources back to work.

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bat recession. Even more heterodox, perhaps, is the fact that Mundell and Laffer think of tax-cutting as a way of augmenting supply, when virtually all of their peers see it only as a way to augment demand. Still, what is most interesting is not any particular conclusion but the way of thinking itself: It is so uncommon to hear economists analyze the nation's economic problems—in such microeconomic terms—in terms of what makes people want to work and produce. It is a distinctly different approach from the monetarist who sees everything as depending on the proper amount of money printed by the Federal Reserve, or from the neo-Keynesian who sees everything as depending on "demand management" by the government. Both of these "macroscopic" theories are inherently managerial in nature. Mundell and Laffer go back to an older style of economic thought in which the incentives and motivations of the individual producer and consumer and merchant are made the keystone of economic policy.

Moreover, this individual producer and consumer and merchant are seen as members of a world economic community. Thus, Mundell-Laffer's global view of what must be done follows from this same kind of microeconomic reasoning. Governments cannot change the terms of trade either by changing money supplies or by varying exchange rates. Some of them only think they can. If they gave up trying, and pooled their mistakes in a simulated common currency, they would avoid the dreadful cost of their illusion. They need only then manage the rate of growth of the common currency—a task they can also relieve themselves of by tying the growth rate to the limitations of the planet's resources (of which gold, of course, is one), knowing that if they do not do this, the planet will bark back with a shortage of its treasures. According to Mundell-Laffer, conservationists who fear the West is plundering the earth's resources little realize the enchanting possibilities of international monetary reform.

A "Copernican revolution"?

It is still much too early, of course, to estimate the status of the Mundell-Laffer hypothesis. Though many distinguished economists are beginning rather grudgingly to allow that "there may be something in it," resistance and disapproval are still strong. The suggestion that gold (or an equivalent to gold, say a basket of commodities) could have a useful role in international finance certainly raises the hackles of a generation of economists who were raised

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to think that the "gold standard" was one of yesteryear's most awful superstitions. And the Mundell-Laffer hypothesis does irritate the ideological sensibilities of those—whether economists or politicians —who believe that, world economy or no, a national economic policy can still be "made" by national authorities. And it is always possible that further research and analysis will reveal that Mundell and Laffer have only a part of the truth.

Still, it is unlikely that the hypothesis will simply fade away. The world phenomenon of inflation-with-recession is one of the striking features of our era, and existing economic theories—whether emanating from Cambridge or Chicago—do not seem able to give a clear and simple explanation. And as the "epicycles" required for an explanation become even more complicated and tortuous, some sort of Copernican revision will become more appealing. Just where the Mundell-Laffer hypothesis fits into such a revision remains to be seen. Theirs may or may not be the "Copernican revolution" in economics that is needed. But at the very least, one suspects, it can legitimately claim a proto-Copernican status.

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Whatever happened to "community mental health"?

DAVID F. MUSTO

GETTING what one wants may be one of life's disillusionments, but it is also instructive. In October 1963, supporters of the "community mental health" approach to psychiatry got a good deal of what they wanted when President Kennedy signed the Community Mental Health Centers Act, authorizing $150 million for the construction of community mental health centers (CMHC's) over the next three years. The idea's supporters got even more of what they wanted in 1965, when $73.5 million in federal money was allocated for the additional purpose of hiring professional and technical staffs for the centers. By now over $900 million has been spent or obligated for the CMHC program, nearly 450 federally aided centers have opened, another 150 are already funded though not yet operational, and an estimated 86 million Americans live in the service areas of these 600 organizations.

The federal money was welcome because it seemed to make possible, as President Kennedy put it, "a wholly new emphasis and approach to care for the mentally ill." It would allow not only more equal access to mental health care but the provision of a broad spectrum of services-in-patient, out-patient, partial hospitalization, emergency, and education-consultation—to fill the enormous gap between the needs of those with only minor emotional tension and those

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whose illness required full hospitalization. A CMHC could usually receive federal funds only if it provided a full range of services, at one site or within easy reach.

This broad-spectrum treatment was necessary, it was thought, to move psychiatry beyond its traditional one-to-one therapy and its emphasis on individual adjustment. As Dr. Leonard J. Duhl, then of the National Institute of Mental Health (NIMH), put it in 1961, "We need to utilize the larger political perspectives which might suggest institutional changes, producing practical changes in the mental hospital almost as a secondary consequence." In Duhl's view, the profession's "total resources and responsibility" had to be reanalyzed and reallocated so that psychiatry could realize its potential as the "humanistic aspect of a technological society," as "an alternative to the conformities and the well-defined structure that develops when a very complex society retreats to rigidity in order to handle the confusion of complexity." Opponents of this grand view of psychiatry, in fact, could best be labeled as persons "paranoidally opposed to changes in society" who saw the discipline as a "threat" to the status quo.

Formula for success

Psychiatry, according to this understanding, could bring about mental health only by concerning itself with large numbers of people and with the social conditions around them. Such a view seemed to be supported by a good deal of research done in the 1950's, research which both pointed to the need for broader psychiatric intervention and held out the promise of success through the new method. First, there had appeared new, higher estimates of the number of citizens needing mental evaluation and treatment. One of the most influential of these studies took place in a Canadian Maritime Province, where investigators concluded that only 17 per cent of the population was "probably well." The rest ranged from "doubtful" to "most abnormal." If figures like these held true in many places, there was an obvious need for many more mental health workers and for a broader attack on mental illness.

Furthermore, other research suggested that the broader attack could be successful. There was, it seemed, a firm link between environment and mental health, and at least the outlines of the kinds of interaction necessary for normal human development had been identified. Few claimed that answers were available in detail. But according to community mental health advocates such as Harvard's

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Dr. Gerald Caplan, what was most needed was to reform community organization, establish earlier and more thorough detection of mental illness, and provide treatment which would be more effective because it would be administered at an earlier stage. So the possibility that perhaps two-thirds of the population was emotionally distraught signified to community-minded mental health workers in the early 1960's the existence not of an intractable problem but of a gigantic opportunity for social progress.

There were few doubts about whether the new methods could ultimately succeed. In an address to the American Psychiatric Association in May 1963, its president exhorted:

> We must remember that the support we have received is based upon an expectation that sooner or later we will be able to find answers to many social problems. . . . We are being handed the opportunity and we cannot afford to hand it to others or to put it down. As [novelist Philip] Wylie said, "You can inherit the earth. The only question is, 'How soon?' . . . Never was chaos so great; never was Paradise so near the reach of common folks—like you and me."

Advocates acknowledged that their method was "in part a political movement," but they often overlooked the possibility of a genuinely political opposition. Too often, they ascribed disagreement to simple ignorance or even emotional illness in their opponents.

This was the faith which welcomed federal funding for the CMHC's; in retrospect, its rhetoric is a considerable embarrassment. The federal subsidy today is a target for elimination by the current Administration. But more than that, it is a subject of serious internal professional dispute as well. The program is criticized for distorting psychiatric training and research, for embodying the arrogance of social engineering by euphoric experts, for making and breaking extravagant promises to poor and distraught communities, for being primarily an ambitious power play by federal mental health bureaucrats. The story of the program's rise and fall in esteem is partly the story of the Great Society's rise and the subsequent suspicion of federal activism in general; it is partly the story of a profession's climb to power in the federal government. But just as important, it throws light on both the persistence and the recent wavering of the American faith in the power of social environment and in mental health experts as manipulators of that environment.

Psychotherapy and the American creed

If the community-approach advocates showed a remarkable faith in their discipline's ability to work environmental changes, they were

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not voicing anything foreign to psychotherapy in America. Psychotherapy—treatment for mental tension or illness through personal communication—began to gain adherents and some popularity in the United States around the turn of this century, even before the introduction of Freudian psychoanalysis, Adlerian individual psychology, or Jungian analysis. The indigenous American psychotheraphy movement was distinct from the older, more pessimistic psychiatry of the late 19th century, which saw the roots of mental illness in often-intractable organic causes. The new movement, by contrast, offered the possibility of using modern psychological treatment to achieve real cures for the mentally ill. Enthusiasm for the new psychotherapy emerged, not surprisingly, during the period of Progressive social reform and of the general growth of social services based on professional expertise. Belief in the possibility of personal cure accompanied belief in the possibility of social remedies.

When the Continental psychologies came to America, they were quickly incorporated into the armamentarium of Progressive reformers—but not without considerable distortion. Freud, for instance, approached the mind as a scientist seeking understanding; he certainly did not expect immediate or even rapid social change through psychological insight or therapy. The Americans adopted Freud with enthusiasm but ignored his caution; they wanted simpler explanations, more rapid cures. Ironically, while no other country has welcomed or fostered psychoanalysis as much as the United States has, none has been so willing to ignore Freudian restraint in order to apply psychological theory directly to public policy.

The applications came soon enough. By the 1920's, the juvenile court clinics, begun in 1909 to apply psychological principles to wayward youth, had given birth to Child Guidance Clinics which treated any child with emotional problems. These clinics usually employed treatment teams, in a new division of specialized labor similar to that not only of the Mayo Clinic but also of Henry Ford's assembly line. The team—with a psychiatrist as leader, a psychologist to conduct tests, and a social worker to provide knowledge of family setting and environmental resources—attempted to predict future maladjustment or treat current difficulties.

The establishment of these Guidance Clinics in the 1920's was prepared by a series of demonstration projects across the United States, funded by the Commonwealth and Rockefeller Foundations. In these clinics, treatment teams sought to fight mental illness in the same way that public health workers had effectively fought public health menaces like tuberculosis—through early identification and

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quick treatment. This public health approach to mental illness had been proposed as early as 1909 by the founders of the National Committee for Mental Health (now the National Association for Mental Health). The 1920's also saw the founding of the American Orthopsychiatric Association, a group of professionals—including psychologists, social workers, and lawyers, as well as psychiatrists—who, encouraged by the promise of the Child Guidance Clinics, believed that widespread application of mental health principles, especially to children, would substantially improve society, reduce crime and poverty, and aid in reforming the criminal justice system, the schools, and other institutions. The mental health profession's entry into the public arena, in short, had been an early and optimistic one.

The limits of growth

The day-to-day experience of the various clinics provided sobering evidence that could have been weighed against the early optimism of their advocates. Predictions about adult adjustment and screening programs to detect misfits turned out to be of little value: Without better knowledge about the causes of mental illness, such preventive efforts were impossible. As for treatment, the results were sometimes helpful but certainly not dramatic. Practitioners did have some success in making the courts appreciate the environmental complexities of behavior, and treated families were perhaps less inclined to punish children for the sake of punishment. But in general, training parents in approved child-rearing practices—one of the clinics' chief goals—proved a frustrating failure; and treating the emotionally disturbed children themselves frequently proved not less time-consuming than treating adults, as had been expected, but even more lengthy. These experiences, however, did not end faith in the eventual value of prevention, early detection, and early treatment of mental illness. Usually, failure was ascribed to inadequate technique and lack of manpower and funds, but not to flaws in the ultimate goals. What limited the further application of the new faith was not discouraging empirical evidence but the attitudes of the federal government.

Psychiatric hospital care had been primarily a state responsibility since the 19th century. Attempts to involve the federal government in providing direct patient care for the indigent mentally ill failed repeatedly. One early attempt by Dorothea Dix came close to success in 1854, when both Houses of Congress passed a measure grant-

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ing federal lands for the construction of state mental hospitals. President Franklin Pierce, however, vetoed the measure, stating:

> I cannot find any authority in the Constitution for making the Federal Government the great almoner of public charity throughout the United States. To do so would, in my judgment, be contrary to the letter and the spirit of the Constitution, and subversive of the whole theory upon which the Union of these States is founded.[1]

This strict constructionist philosophy prevailed until the 1930's, and the keen vigilance of the American Medical Association (AMA) against the first signs of socialized medicine helped it to do so. From the beginning of the 20th century, the federal government began providing small matching grants to state and local communities for health services, but AMA opposition kept such efforts from growing larger. When the Public Health Service in 1930 acquired a Division of Mental Hygiene, it was not only federal economizing but the opposition of organized medicine to federal expansion in the health field which kept the Service's efforts minimal.

The uses of adversity

Two things helped change the balance of opinion about federal health activity. First, the Depression established a general precedent for large-scale federal intervention to meet major domestic problems. Just as important, though, World War II both seemed to provide an impressive demonstration of the value of the mental health professionals, and gave the professions themselves almost all the precedents they later drew upon in establishing postwar mental health programs. At the outbreak of the war, most full-time psychiatrists worked in mental hospitals, while the few clinical psychologists primarily gave mental tests. The war instantly increased the demand for professionals. Psychiatry, clearly the dominant discipline in the therapeutic professions until the late 1960's, thereby received long-awaited large-scale recognition.

Military leaders were astonished to find almost two million draftees rejected from the services for mental disorder or deficiency; the admirals and generals had had no idea that there were so many mentally unreliable persons. Even though rejection rates before training significantly constricted the supply of able-bodied service-

[1] Senator Stephen A. Douglas of Illinois concurred. The measure, he said, "opens a door to the extension of power of this Government and its jurisdiction, in derogation of the rights of the States, to a wider and more fearful extent that any bill or proposition which I have ever known to be presented."

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men, the military accepted the psychiatrists' judgments in these cases and thus enabled psychiatry to expand its role and authority in the medical services. Psychiatrists proved valuable at the front as well. They had an admirable record for returning a high proportion of "battle-fatigued" servicemen to the front after brief therapy, and they were impressive at providing explanations to the line command for the bizarre and irritating symptoms exhibited by the emotionally disturbed.

As with the Child Guidance Clinics, there is reason to question the scope of these accomplishments that both psychiatrists and the military accepted so unreservedly. For one thing, the high rejection rates at induction centers seem to have been in large part the result of the psychiatrists' oversensitivity to any hint of mental disorder. Thus, while the U.S. rejection rate for mental problems was six times higher than at British induction centers, the British rate of discharge from active duty for psychological reasons was no higher than the American one. And even the "battle-fatigue" successes were not necessarily of broader significance. Breakdowns under extreme battlefield conditions, though they may appear similar in their expression to civilian neuroses, can apparently be relieved much more easily once the extraordinary specific stress is relieved. Thus there was no necessary connection between the wartime successes and the ability to treat more chronic emotional disturbances.

These, however, were not the conclusions drawn at the time. After the war, Brigadier-General William C. Menninger, head of army psychiatry, spoke of its lessons for the future of American psychiatry in general, citing early detection, referral to a psychiatrist, and "team" treatment as key factors in the phenomenally high wartime recovery rate. Above all, he believed, the war taught that psychiatry should be allowed to stand on its own feet rather than be considered merely a subfield of medicine. All too often, he claimed, commanding medical officers, ignorant of, or unfriendly to, psychiatric treatment and theories, made regrettable decisions involving psychiatric care.

Dr. Menninger further argued that psychiatry must contemplate the possibility of applying its wartime lessons in the broader civilian arena. And if there were to be such application, he wondered whether there was any justification "for some of our best psychiatrists limiting their practice to the same eight or ten patients every day, in many of whom they invest hundreds of hours." Dr. Menninger saw the "handwriting on the wall for some of the future trends in this field":

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> As yet we have not begun to reach the average man on the street. We must conclude that to date psychiatry has fallen far short of its potential contribution and its service must be tremendously expanded.

The profession had emerged from the war with its faith in community treatment strengthened and its self-confidence raised.

Institutionalization of the faith

In the last months of the war, Representative J. Percy Priest of Tennessee introduced a bill to establish a National Neuropsychiatric Institute as one of the National Institutes of Health (NIH). Surgeon-General Dr. Thomas Parran and Dr. Lawrence Kolb, Sr., of the Public Health Service's Mental Hygiene Division had been planning for such an Institute from the late 1930's, and the idea's time had finally come. The National Mental Health Act of July 1946 created the body as the National Institute of Mental Health (NIMH). In 1946, Dr. Robert H. Felix, soon to become the NIMH's first director and eventually to oversee the passage of the CMHC program through Congress, spoke of his hopes for federal activity in the area. The "cornerstone" of the new program, he said, was "the concept of mental health and mental illness as a public health problem and utilization of the strategy which has proved most successful in coming to grips with health problems in other fields."

In addition to federal support for training, research, and education, Dr. Felix foresaw, as in the campaign against tuberculosis, "an easily applied and reliable screening method . . . to bring to light and study many cases of personality disorder which would not come to the attention of the psychiatrist until the symptoms were more advanced. We would then have a real opportunity to try preventative measures." The major locus of treatment would be "properly staffed out-patient clinics," which might postpone or prevent hospitalization, permit earlier hospital discharge, and educate the public. Dr. Felix cited the need for one mental health clinic for every 100,000 citizens "to provide a well-rounded and integrated program for the whole community. . . ." Some hopes that were later expressed for the 1963 Act were missing from the 1946 speech: Dr. Felix did not speak of completely abolishing the state-controlled hospital system or of reordering social conditions to alleviate mental illness. But many of the assumptions of the 1963 Act were already in place by this time, as indeed they had been in place since the turn of the century.

Despite Dr. Felix's vision, the legacy of strict constructionism and

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AMA opposition had by no means been completely obliterated by the Depression and the war. The NIMH's origins coincided with intense debate over President Truman's plans for federal compulsory health insurance. In this atmosphere of controversy, the NIMH had ample incentive to proceed traditionally and cautiously; indeed, its annual budget did not reach $12 million until 1954. More important, the prohibition against direct federal aid for patient care was still in force. The only major exception was the Veterans' Administration, which remained the primary center of federal activity in mental health. The VA provided strong support for medical school training and research and established psychiatric hospitals and out-patient clinics of a quality rarely available before except in private institutions.

The VA's effort was widely accepted because of the special responsibility the federal government owed to ex-servicemen. In state-supported institutions the care provided to hospitalized mental patients had been deteriorating since the 1930's. The number of patients in these dismal hospitals increased yearly. By 1955 they totaled about half a million and accounted for half of all the hospital beds in the United States. By 1960, the VA psychiatric hospitals had a patient care cost of $12 per day, while state, city, and county psychiatric hospitals spent only $4. The idea of community treatment was popular, but the state hospitals could not be phased out or improved unless the prohibition against direct federal aid for patient care was overcome. (The federal government appeared to be the only source of enough additional money to care for these patients properly.) Although the state hospitals were largely hidden from public view, mental health workers were aware of them, and in the early 1960's they seized the moment when the federal government finally decided to allocate significant funds to the direct care of the mentally ill. If some of the promises made to get that money were excessive, one can sympathize with the motivation to improve these lamentable conditions in any possible way.

The last mile is the hardest

Beginning in the 1950's, a succession of public bodies tried to formulate a new federal mental health policy. In 1955, Congress authorized a multidisciplinary re-evaluation of all aspects of mental illness, with a view to formulating "comprehensive and realistic recommendations" to meet the problem. The Congressionally established Joint Commission on Mental Health and Illness submitted its

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report in 1961; the report recommended that President Pierce's veto of the Dorothea Dix plan be reversed, and that the federal government begin to give significant amounts of money for the care of the mentally ill. The federal money would be given in mounting increments to the states beginning at $100 million a year, to reach an appropriation of $1 billion annually in 10 years. Local participation was to be encouraged through further federal matching grants, bringing the annual total of federal contributions to $1.75 billion after 10 years. The Commission also recommended a wide variety of additional services—clinics, training, research, public education.

What the Commission did not do was to suggest virtual abolition of the state mental hospitals; instead, it called for a system of minimum standards and upper limits on numbers of patients. Also, the Commission made a firm decision not to emphasize prevention of mental illness, because the effectiveness of preventive methods had not been proved to its satisfaction. Generally, the Commission showed a certain restraint: "In the absence of more specific evidence of the causes of mental illness," it said, "psychiatry and the allied mental health professions should adopt and practice a broad, liberal philosophy of what constitutes and who can do treatment. . . ."

While the Commission was at work, another study was begun on the problem of increasing and coordinating federal aid in the mental health fields. In 1959 the Surgeon-General appointed a committee of state health authorities to work with the Public Health Service in drawing up guidelines for comprehensive state mental health planning. The Committee's report stressed the need for many of the services that the Commission had mentioned, and favored even more stringent limits on the size of state mental hospitals. The federal legislation contemplated by the Committee also featured (as the Commission plan did) federal funding through the states, presumably for construction rather than staffing. Increased aid to the mentally ill themselves was to come through the public assistance provisions of the Social Security Act. The Committee recognized the shortage of mental health professionals but pointed to the rapid growth in their numbers and claimed that good facilities in rural areas had proved helpful in attracting competent medical personnel.

These reports were not comforting to the mental health professionals at the NIMH. Although the report of the Surgeon-General's Committee had led to an appropriation to the states to prepare state mental health plans, the NIMH had less involvement in this planning process than it would have liked. It feared that the result-

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ing approach would be too cautious, too dependent on state funding, too much associated with already-existing health facilities, and too hesitant to demand federal staffing grants as a necessary element in the program.

In other words, from the NIMH's point of view both the Surgeon-General's Committee and the Joint Commission suffered from an excess of tradition. The Public Health Service staff which had led the Surgeon-General's Committee were those involved with hospital construction under the Hill-Burton Act, and had estimated that only about $50 million a year would probably be available from federal funds for community mental health facilities. To NIMH leadership, the construction background of the PHS bureaucrats was inauspicious for a dramatic change in the federal approach, and the budget that the PHS anticipated was too small for producing the changes required with the necessary speed. The Joint Commission had called for more money, but failed to call for the uprooting of the state hospital system or to express faith in the possibility that community psychiatry could reform society and thereby reduce the incidence of mental illness among the citizenry as a whole. NIMH leadership, in short, was impatient with what it saw as bureaucrats doing business as usual.

NIMH leaders also were troubled by something else in these reports—the question of control. If federal mental health policy were to make the required major departures, it was necessary that only NIMH psychiatrists, rather than conventional bureaucrats, have control over planning, budgeting, and operation of the national community mental health program. This kind of centralized professional supervision over both services and research represented a departure for the National Institutes of Health; the NIH usually conducted research and supported other training and research activities, while the PHS and other parts of the Department of Health, Education, and Welfare dealt with the states and with the actual delivery of treatment. Dr. Felix, however, now NIMH Director, saw mental health as unique: One need not conform to the usual custom in this area, but on the contrary must get the emerging program away from the doubting, conservative bureaucrats and let his experts carry the ball.

The NIMH victory

So by late 1961 the NIMH staff had prepared its own plans for mental health centers. Staying within the Joint Commission guide-

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lines for the amount of federal funding, the NIMH report projected the goal of 2,000 mental health centers in existence by 1980. The report deviated from its predecessors by insisting that the federal money should be used not only for construction but also for staff salaries.

At first this NIMH vision seemed to have little chance of being accepted, since the King-Anderson bill providing for broader health care through Social Security had just met defeat at the hands of the Health Insurance Institute and of the AMA, which adamantly opposed the bill's proposal for federal funding of physician services. The Surgeon-General's Office and the Director of the NIH, Dr. James A. Shannon, took note of this controversy and of the traditional federal role in mental health when they criticized the NIMH scheme. The question of federal payment of medical staffs, they said, should be decided not by NIMH alone but at higher levels of government. NIH's Office of Planning stated that before NIH could support the NIMH proposal, the latter would have to give persuasive reasons for such a departure in policy and present a "corroborative statement justifying such action by the Federal Government in providing support for the care of the mentally ill and not for other chronically ill persons of the nation." President Pierce's century-old criticism was still alive.

At this point, though, the White House intervened to provide encouragement for the NIMH plan. President Kennedy wanted to make a major contribution to the problems of mental retardation and mental illness. He read the Joint Commission Report, and he and his health appointees decided that implementing it would be one of the Administration's higher priorities. On December 1, 1961, he appointed an interagency committee to decide how this implementation should take place and to prepare for a Presidential message to Congress on the subject early in 1963. The interagency committee report that emerged strongly resembled the vision of the NIMH. Continuous care within the community was preferable to refurbishing the state hospital system, the committee said, and therefore a network of CMHC's should be constructed throughout the nation through federal aid in the Hill-Burton tradition. State hospitals were to be aided, but with the understanding that an ongoing transition to CMHC's would ultimately reduce the need for these hospitals.

The CMHC's would emphasize the general promotion of mental health and the prevention of mental illness. By 1980 they would require a tripling of the number of mental health personnel, whose

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salaries would be met through direct federal aid during the first few years of operation only, as opposed to the NIMH plan for an open-ended subsidy. The committee thought that health insurance programs could eventually play a more decisive role in mental health services and relieve government costs for them.

The President decides

President Kennedy's optimistic message to Congress on mental illness and mental retardation, on February 5, 1963, incorporated his committee's recommendation: "If we apply our medical knowledge and social insights fully," he declared, "all but a small portion of the mentally ill can eventually achieve a wholesome and constructive social adjustment." He was confident that "a concerted national attack on mental disorders is now both possible and practical."

The key to success would be the Community Mental Health Centers, where it would be "possible for most of the mentally ill to be successfully and quickly treated in their own communities and returned to a useful place in society." There would be major emphasis on mental illness prevention, which was "far more economical and . . . far more likely to be successful." The centers, "ideally . . . at a community general hospital," would receive federal construction funds; and as a compromise between full, permanent payment of staff costs and no payment, the President recommended federal aid beginning at 75 per cent of staff costs and phasing out in about four years. The state hospitals, destined to play a "valuable transitional role," should receive $10 million in federal aid to improve existing care; and professional manpower had to be increased from the 45,000 existing in 1960 to 85,000 in 1970.

Neither the funding level envisioned in the Kennedy message nor the idea of federal staffing grants survived the Congress of 1963. First, the House Subcommittee on Public Health and Safety cut the Senate's proposal for overall funding levels from $657 million to $284 million, and then the full House Committee on Interstate and Foreign Commerce eliminated the federal staffing grant proposal altogether. The committee seems to have been strongly influenced by the AMA leadership. The CMHC Act that President Kennedy finally signed on October 31, 1963, specifically provided for a three-year construction program of $150 million, to make possible the funding of about 145 centers between July 1964 and July 1967. Planning could go forward within the states while the Administra-

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tion made further attempts to get staffing grants. The staffing grants finally did emerge—but not until the summer of 1965, when President Lyndon Johnson signed amendments to the CMHC Act authorizing $73.5 million for this purpose.

Despite its omission of staffing grants, the Act of 1963 provided significant victories for the NIMH advocates and paved the way for future victories. For one thing, the goal of prevention—and the assumption that one knew *how* to prevent mental illness—had been endorsed in the Presidential message. To Dr. Felix, this endorsement suggested possibilities far beyond the words of the message itself. Two weeks after the passage of the 1963 CMHC Act, he described the tasks of the mental health center as including:

> . . . not only the reduction of those factors which tend to produce mental and emotional disturbances, but also the provision of a climate in which each citizen has optimum opportunities for sustained creative and responsible participation in the life of the community, and for the development of his particular potentialities as a human being.

In short, the centers would not limit themselves merely to preventing abnormalities but would also promote positive self-fulfillment.

Securing the beachhead

Furthermore, the CMHC program was a means through which the NIMH could achieve victory in its power struggle within the federal government to win more autonomy and appropriations, and in its battle within the states to wrest power from the hospital superintendents who influenced the control of state funds—about $1 billion a year—appropriated for patient care. First, if the NIMH directed a national delivery system and funds were allocated to the NIMH budget, rather than to the PHS Bureau of State Services, a good case could be made for elevating the NIMH to bureau status. Second, the program's goals meant that state hospitals would be by-passed while new local institutions would provide complete community services. Meanwhile, other power centers in the mental health professions—academic departments of psychiatry, psychology, and social work, and various professional organizations—would get additional training, faculty, and building funds and increased status in their communities as they cooperated in creating the CMHC program.

At least some of these possibilities were indeed realized. After the 1963 Act was signed, it was the NIMH, rather than the PHS

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Bureau of State Services, which won primary control over the planning and design of the centers. Only a psychiatric agency, the NIMH successfully argued, could evaluate these services properly. In 1964, new regulations for the centers mandated that only psychiatrists be directors of clinical services and named the NIMH as the evaluator of proposed CMHC's. In 1966, the NIMH attained its goal of becoming a bureau; reorganization, placing it on an equal footing with its parent, the NIH, took effect on January 1, 1967.

The assumptions which underlay the 1963 Act and which permitted the NIMH rise to power did not receive, and were not likely to receive, much criticism from within the mental health profession. Even those with doubts often benefited in some way from the total program, and the NIMH argument that division in the ranks might lead to no new program at all also helped to quiet the skeptics. But the NIMH advance was not merely the creation of strategists aiming at greater power and others hoping to share in that power; it was consistent with one of the lines of the most advanced serious professional speculation. Analysis of group and social behavior in the 1950's had concluded that communities as a whole should be the object of concern because their often ineffective or destructive patterns of interaction appeared to cause higher levels of mental pathology, and these destructive patterns could be corrected under expert guidance. The CMHC program would be one of the federal government's first attempts to raise national mental health by improving the quality of general community life through expert knowledge, not merely by more effective treatment for the already ill. The enormous potential contribution of the mental health professions to national betterment had at last been recognized. These were, then, exciting times for the NIMH; the difficulties of creating the "bold, new approach to mental illness" would appear only later.

Faith versus works

The first practical problem that beset the NIMH as it began creating its network of centers was how to obtain the large numbers of properly motivated professional and non-professional personnel needed to run them. The problem with the professionals was to persuade the typical private-practicing, one-to-one therapist to get the faith and turn his eyes away from the individual patient toward the community.

Various forms of persuasion were used. First, there were general exhortations to the profession. In 1965, the chief of the NIMH's

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planning office admitted the difficulty of transition to the "foreign world" but insisted:

> Nevertheless, it is the real world where basic decisions are made. . . . It is the world in which the future of mental health services will be decided, even more markedly than by psychiatrists. . . . Thus we must begin to work with the politicians and with other planners and on all levels.

Many professionals actively entered into the state-wide and local planning processes, anticipating an exciting experience in improving their communities. To those who had not caught the vision, the enthusiasts would not only speak of "proof" that they could reform communities but warn that Congress or "the community" demanded that the mental health professions perform their task without dawdling—although the goal of "community reform" had in fact been the planners' own inspiration and favored emphasis.

The NIMH worked not only with the profession in general but with professional training centers in particular. For example, the new program's goals and needs were delivered directly to the nation's medical schools through a series of Regional Institutes on Training in Community Psychiatry, from October 1963 to February 1964. The need for a strong emphasis on community psychiatry, an element then lacking in two-thirds of all psychiatry departments and very new in most of the other third, was presented as President Kennedy's "demand," his "call to action" for a "completely new approach." Dr. Gerald Caplan, one of the most influential theorists and educators in the new field, described the community psychiatrist as different from his

> traditional colleagues in having to provide services for a large number of people with whom he has had no personal contact, and of whose identity and location he has no initial knowledge. He cannot wait for patients to come to him, because he has equal responsibility for all those who do not come. A significant part of his job consists in finding out who the mentally disordered are and where they are located in his community, and he must deploy his diagnostic and treatment resources in relation to the total group of sufferers rather than restrict them to the select few who ask or are referred for help.

Certainly this new role required an enormous change in perspective for both academic and practicing psychiatrists. But there would be trouble for the profession if it did not obey the new federal "demands":

> Will it be worth the effort involved? This question implies that we have a choice. I do not believe we have. The demands of the legislators are

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> no passing fad. . . . They are in line with other governmental planning developments in the public health, social welfare, education, and urban renewal fields. . . . We are today witnessing a major trend. If we do not wish to accept the community leaders' mandate, we will undoubtedly be pushed aside and replaced by others. If psychiatry rejects the proferred roles in community programs for the prevention and control of mental disorders, these will be offered to other professions. . . . To retain our leadership we must accept the legislators' offer and rise to the challenge of adjusting our professional theories and practices to the new situation which confronts us. . . . Perhaps we will be strengthened in overcoming the inevitable obstacles by the realization that we have no reasonable alternative.

The vast majority of training programs, lured by additional funds, the thrill of the undertaking, or the fear that its psychiatrists would be by-passed if they rejected the "mandate," did just what was asked by the NIMH. The result in many training centers was enormous growth in the number of residents, the creation or great growth of community services, and the establishment of training programs for "psychiatrist-administrators." There was also considerable emphasis on the training of "indigenous workers" or "aides," who perhaps had little formal education but who could presumably communicate better with the neighborhood or were simply needed to fill out the huge number of psychotherapists that the anticipated centers would require "to lower the level of pathology in a total community."

The CMHC's and the local communities

The NIMH has also scored an apparent success in getting patients out of mental hospitals and back into their communities—an important goal of the CMHC program. Year by year, the average census of state mental hospital patients has been dropping. A large chart showing this decline is the inevitable background to an NIMH press conference or Congressional hearing.

But one should not be too quick to take this drop as proof of CMHC effectiveness. Although the average census in state mental hospitals dropped from a high of 557,000 in 1957 to 249,000 in 1973, a team of NIMH investigators, speaking only on their own behalf, reported to the 1973 meeting of the American Psychiatric Association that "evidence as to the impact of the Centers Program on the use of state mental hospitals is equivocal. . . . No large consistent relationship appears between initiation of federally funded centers and change in the in-patient rate in state mental hospitals." The

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CMHC's might be performing other valuable services in their communities, but they simply could not claim primary credit for the drop in the hospital census.

But even if the CMHC's *could* properly claim a major portion of this credit, it is not so clear that they should want to. The hospital census has been reduced by means ranging from hospitals' abundant use of drugs to the massive discharge of patients, many of them elderly, to proprietary nursing and foster homes. In these domiciles, the discharged patients too often receive care worse than in the average state hospital. It is, as critics put it, merely a move "from the back ward to the back alley." After inadequate or nonexistent "community care," many of these individuals are soon readmitted to the hospital, in a process described by Murray Schumach of the *New York Times*:

> . . . thousands of the released patients who were supposed to be getting treatment that would rehabilitate them had become part of a vicious "revolving door." This meant that many patients, denied treatment and adequate facilities, drifted from state institution to sleazy hotels, to the street, to such city institutions as Bellevue, and back to the state institutions.

This situation helped to produce the drop in the average census and the average length of hospital stay; it has also produced, because of the "revolving door," an enormous rise in the number of annual admissions to the state hospitals, from 200,000 in 1956 to 400,000 in 1972. Seen in this light, the omnipresent NIMH chart does not appear quite so impressive.

The CMHC's encountered much greater difficulties in their attempts to establish fruitful relationships with the "total communities" around them. The centers began operating just as many local communities, particularly those mired in poverty and given priority as CMHC targets, were seething with overt anger against the Establishment. The early centers tried various ways of intervening in this collision with troubling and even harrowing results for CMHC staffs.

Some of the most dramatic confrontations occurred at those centers which involved themselves in their communities by enrolling local residents in training programs that promised a career in the mental health field. The experience of New York City's Lincoln Hospital, afflicted in the late 1960's by a variety of local problems, dramatically revealed the effects of this unwarranted raising of expectations. Lincoln Hospital's mental health service, aided by both OEO and NIMH grants, recruited 140 black and Puerto Rican

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"indigenous workers," who became increasingly restless when significant jobs did not materialize for them after their training. In March 1969, they took over the mental health service entirely and threw out the professional staff. Other confrontations of this sort befell the CMHC's as they first presented themselves to poor and angry local citizens as a source of substantial help for the community as a whole, and then found that they had stirred up feelings and expectations they could not fulfill.

Even apart from the hopes which the centers themselves stirred up, the CMHC's found that mental health expertise could do little to quiet rioters or diminish social unrest as the turmoil of the 1960's continued. Some of the professionals trained in community psychiatry concluded that the centers should not try to defuse or mitigate community anger through "environmental manipulation," but should instead join with the community in demanding better social conditions and equal justice through political activity, demonstrations, and, at times, violence.

Other centers forged ahead with a more specifically psychiatric approach, but even they found themselves in a difficult position. In the tense atmosphere of urban disorder, each side at times saw the mental health center as an outpost of the enemy. The institutions funding the CMHC's generally wanted peace and quiet, and were disappointed by the disorder that came to surround CMHC activity. But these pressures from above seemed mild compared to the demands of angry communities for jobs, social reform, and power. Amid these fierce buffetings, the CMHC's gradually moved toward the more traditional activities of individual and small group care and consultation on request. Optimistic forecasts of what community psychiatry could do for social reform in the "total community" declined, as did the claims made for Great Society programs as a whole. Justification for CMHC programs shifted from social reorganization to the provision of customary services to alleviate individual deprivation and illness.

Finding out what happened

By September 1974, a total of 591 centers had been funded under the CMHC Act, and 443 were actually operating. Some hard data about their operations are available: The centers' services, for example, are primarily directed towards the poor and the young. In 1972, less than four per cent of the persons served were 65 or over, though such persons made up 9.7 per cent of the total population;

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42 per cent of those served came from families with incomes of less than $2500, an overrepresentation by about a factor of three. But in many respects, it is hard to generalize about the CMHC's. They vary widely in character, from components of university medical centers to simple associations of pre-existing services in small rural towns. They also vary in quality of leadership, fiscal responsibility, style of treatment, and quality and kind of professional training. Depending on which edge of the spectrum one examines, the program can appear a nightmare or a success. Furthermore, the data on the centers are fragmentary, have been kept only for a short time, and are of varying reliability.

One major reason why it is difficult to speak systematically about the CMHC's is that the NIMH has, until recently, strongly resisted evaluating their performance. On the surface, this hesitancy is surprising. Testing and evaluation formed a leitmotif of the NIMH's community psychiatry proposals from World War II until the campaign for the centers was won, and federal requirements stipulated that each center must devote a small portion of its budget to program evaluation. But NIMH administrators seemed to reason that in the early years of the new program attention should be focused on bringing the centers into operation; only later could research into performance be meaningful. Perhaps also the extraordinary rush to build centers in the first years of funding left the NIMH with the not unreasonable fear that evaluation might only serve to damage the centers' public image and the strong support that they enjoyed in the Congress.

The evaluations that have been made, usually prepared by a center's professional staff with an understandable interest in perpetuating their programs, are often based on subjective impressions. These self-evaluations tend to conclude that more needy individuals are reached by services, and that ex-patients are more able to function in society, better able to hold a job, or "happier." Evaluating the impact of mental health services is of course a very difficult thing. A recent and carefully controlled study of English children with school problems, for instance, found that of those treated, 65 per cent showed remission of the disorder within two years; of those untreated, 61 per cent had remission within the same period. One might well reply that the treated child might have a better future prognosis or that family and school disruption had been lessened during treatment. To a critic, however, those qualifications could easily seem like rationalizations for the lack of significant difference that the "hard data" showed. A growing unwillingness to accord

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mental health evaluation the "benefit of the doubt" has undermined claims of effectiveness which some years ago went virtually unchallenged.

Dr. Caplan, a community health advocate who insisted upon the importance of evaluation, repeatedly asked that such evaluation be done and met with NIMH opposition on the grounds that there existed as yet no evaluation techniques without obvious flaws. Eventually, the American Psychiatric Association appointed a task force to consider how this research could be stimulated. The task force's 1971 report was openly critical of the NIMH record in this regard:

> While it has been the policy of the NIMH to give high priority to research support, it must be acknowledged that in the area of community mental health this policy has not been implemented with the attention required by the newness of the programs and their scope. The time is propitious to correct this imbalance.

The decline of the faith

Research was indeed needed—not just for new knowledge, but in order to defend the centers or to improve them so that they could withstand the growing attacks of critics who favored more comprehensive health centers or contended that the "bold new approach" had nothing much to offer after the hoopla of its introduction and the sequestering of federal health resources. One of these critics has been the present Administration. Currently HEW publicly maintains that the decision to build and maintain CMHC's should be a local matter, and that the federal government should not support additional centers.

The proposal for a cut-off, contained in the President's January 1973 Budget Message to Congress, was based on the fear that federal aid to the centers would be endlessly perpetuated by repeated extensions. HEW's criticism of the little and late evaluation of CMHC's may not be a fair one. It may be, as some CMHC advocates contend, a political attack that cannot be met no matter what kind of information is supplied, and it may be that the contribution of the CMHC's is no less valuable for being the kind of service that can be described only through intangible, subjective impressions. It is ironic, though, that CMHC advocates scoffed in the early 1960's at the "intangible" considerations cited by some of their opponents, such as the possibility, since borne out in the New York State mental hospital system, that the large-scale release of patients

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from mental hospitals might have bad rather than good effects on the patients and their families.

The Administration is not the only critic of the CMHC's. In 1971 and 1974 the General Accounting Office sent to Congress reports full of detailed criticisms of the CMHC's and concluded that substantial improvements were required in a list of rather crucial areas: "planning related to the area to be served (catchment area) and services provided, a center's ability to operate without continued Federal assistance, monitoring and evaluation, coordination of center activities and use of construction resources." The 1974 Nader Report on the NIMH, *The Madness Establishment*, put the matter even more strongly: "The community mental health centers have been neither accountable backward to the NIMH, which established them, nor forward to the consumers and citizens in the community they allegedly serve."

Other criticisms have come from radicals opposed to the very idea of mental health expertise. The early community mental health planners cannot be accused of any particular insensitivity to the idea of individual rights and liberties. During the past decade, however, the general preoccupation with rights and liberties grew to the point where every restraint on freedom was thought presumptively worthy of suspicion or active rejection, and mental health planning was no exception. The original CMHC strategy was a "public health strategy," to be applied as it had been applied to tuberculosis—entering a sick community and locating and treating the diseased, who might be recalcitrant or ignorant of their condition. It was to be a professional decision which designated an individual as "sick" and in need of treatment. This kind of intervention is one of those external restraints that have now fallen into disrepute. The leading edge of legal thought once embraced psychiatry as a guide to the causes of crime and to its reduction through treatment and rehabilitation. Today, the leading edge questions the value of psychiatry in the courtroom and condemns sentences for psychiatric treatment as a cruel extension of incarceration without benefit to the defendant or the public. "New drugs" were originally part of the CMHC strategy to empty state hospitals and permit community care; by now, at least one jurisdiction has refused hospital psychiatrists the right to give such medication to a legally committed patient against his will.

The anti-professional animus is not merely a legal one; it has beachheads within the mental health professions themselves. Dr. Thomas Szasz, of course, has called the whole concept of mental illness a "myth"; and, ironically, the very training programs of the

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1960's which were intended to produce community psychiatrists added members to the anti-psychiatry movement within the profession. In some communities, "anti-psychiatrist psychiatrists" have adopted confrontation tactics ranging from defamation to physical attack to block the construction of a CMHC, viewing it as nothing more than an attempt to "control" a community. These children of the CMHC movement are merely the mirror image of their parents. A good number of leaders in each camp hold that individual disorder is inescapably linked to social environment, believe in the primary goal of new community awareness and organization, accept psychiatry as powerful enough to influence this awareness and organization, and reject individual therapy as not only old-fashioned but essentially immoral. The battles which erupted in some communities between the two groups and which considerably harmed the CMHC idea were so intense and dramatic precisely because both sides shared the fantasy of an omnipotent and omniscient mental health technology which could thoroughly reform society; the prize seemed eminently worth fighting for.

Neither of these groups represented more than a small fraction of all practicing psychiatrists, but by now criticism of the program has also been voiced by a more broadly representative organization, the American Psychiatric Association (APA). The same 1971 APA task force report that criticized NIMH's evaluation procedures raised more general questions about the Emperor's clothes which had appeared so elegant in President Kennedy's message to Congress. The breakthroughs, the "new knowledge and new drugs" which made the CMHC proposals both "possible and practical" appeared somewhat less remarkable to the APA authors:

> Therapeutic claims have often been unsubstantiated by experience and experiment. Our current knowledge of the nature, causes, and treatment of mental illness, while significantly advanced over previous decades, is still inadequate to validate comprehensive programs of prevention and treatment.

Congress for the defense

Very little of this criticism, however, seems to have penetrated the halls of Congress. The CMHC program has been continued by repeated Congressional extensions and amplifications of the basic 1963 Act. In 1967, the original construction and staffing programs were extended to 1970. And in 1970, Congress substantially increased and extended federal assistance to the centers, having been persuaded

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that its earlier optimism that states and localities would eventually step in had been excessive. Centers could now receive aid for eight years; centers in poverty areas could receive more than others. Further aid was allocated for child mental health, for community programs, and for alcoholism and drug addiction. In 1973, HEW Secretary Caspar Weinberger tried to persuade the Congress that it was time to phase out federal aid; he was rebuffed, though funding was extended only for one year at existing levels. Congress still believes that the reduction in the state mental hospital census is indeed a powerful symbol of CMHC success; Congressional response to public fear and anger over the massive discharge of mental patients into communities has been to propose that a new service, that of halfway houses, be added to the CMHC program.

Congressmen remain enthusiastic over the CMHC's, both because they retain their faith in mental health experts and because voting against the idea of mental health seems as difficult as voting against motherhood. Their opponents as well as their supporters admire the political finesse of the NIMH and CMHC lobbyists in cultivating such Congressional enthusiasm. CMHC advocates have until now succeeded in using the state hospital census reduction as a shield behind which they can try to reform a hastily developed program, preserve funds for the mentally ill, and maintain as well the jobs now dependent on federal subsidies.

Nevertheless, one can begin to see signs that the Congressional support for separate, categorical grants to mental health facilities may not last forever. The bill that the Senate Committee on Labor and Public Health drew up to replace the expired 1973 authorization encourages the centers to increase their reliance on general health funds from Medicare and Medicaid. A more general change in attitude is also perceptible. In the early 1960's, up-to-date Congressional aides often fought for more mental health care as avidly as Dr. Johnson thought gentlemen should acquire lace and Greek. Within the last few years, however, a new generation of Congressional staff has come to question the value of psychiatry and psychotherapy. Congressional aides are increasingly inclined to believe, for instance, that the lack of hard evidence for the effectiveness of long-term out-patient psychotherapy is good reason to limit severely the provision of such services in any national health insurance plan that may come about. This new skepticism, accompanied by demands—even within Congress—for proof of effectiveness, is perhaps the most serious obstacle that the CMHC's and the mental health profession will have to face.

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The pains of integration

The experiment with community mental health, then, has placed its advocates in a position where they are increasingly unable to make a convincing case for special funding consideration as a unique tool for the betterment of society as a whole. CMHC's were one of the earliest federal civilian health systems; they had time to organize and consolidate their own constituency while those working for general medical care were still fighting for federal participation. Now, however, other special needs have been acknowledged and funded, and the attention of health planners is being directed to the question of how to organize this very costly system in the most efficient way. The pressure to justify the expense and show the effectiveness of various mental health treatments is increasing, and in this new climate CMHC advocates are finding it hard to justify their continued funding as separate organizations. Even those convinced that mental health treatment is of value have suggested that the CMHC's be integrated with social service agencies or with broader health care systems (such as general hospitals or health maintenance organizations), instead of continuing to ask for what their critics call special privileges through categorical grants.

American psychiatry has resisted such integration with the rest of the medical profession; it fought actively for its independence beginning in World War II and had fairly well achieved it by the 1960's. The reason for this resistance may be found in the nature of American psychiatry's goals. In Britain, for example, psychiatrists were integrated into a national health system without any apparent damage to their effectiveness or morale; but in Britain there has been no dominant opinion among psychiatrists that the profession might be able to make society well and happy. By contrast, the American mental hygienist, as sociologist Kingsley Davis portrayed him in 1937,

> . . . will continue to be unconscious of his basic preconceptions at the same time that he keeps on professing objective knowledge. He will regard his lack of preventive success as an accident, a lag, and not as an intrinsic destiny. All because his social function is not that of a scientist but that of a practicing moralist. . . .

The American mental health professional has believed and has been supported in the belief that his expert insight and technology could achieve a better social day; perhaps this view has received such broad support because it promised to achieve social goals more painlessly than programs calling explicitly for economic and political change.

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The *hubris* with which some American psychiatrists have approached, and have been encouraged to approach, mental and social problems may well have been a significant cause of their difficulty in integrating with other medical specialties. Since World War I, leaders among American general practitioners have tended to praise rugged individualism and private enterprise, while their counterparts among American psychiatrists were increasingly likely to stress social interdependence and perhaps even national social reform through psychological insight. The American mental health workers' optimism has often elicited strong, negative reactions from other professionals. Psychiatrists who wanted no subordination to other medical specialties correctly sensed the incompatibility between themselves and other American physicians in the style and the assumptions with which they approached individual as well as the largest of social problems. The psychiatrists seemed to have gained their independence with the passage of the 1963 CMHC Act; criticisms of the program pose a serious threat to that independence.

A chastened future

Along with the problematic performance of the CMHC's, other changes have occurred in the psychiatric profession since 1963 that may make its integration easier than it would have been before. Calls from within the profession for social change under psychiatry's guidance have declined, along with the value placed by others upon its opinions on every conceivable issue. The "community psychiatry" training of the 1960's "thinned" psychiatric education and at the same time brought it closer to the concerns of social agencies and management consultants. The actual operations of the CMHC's taught that psychiatrists, as opposed to social workers, psychologists, or administrators, did not necessarily possess all the skills necessary for leadership of such an effort. Federal programs directed at increasing the numbers of mental health workers, both professional and non-professional, held out one vague goal for all—namely, securing "community mental health." There are now tens of thousands more workers, but they are enmeshed in confusion over professional boundaries and rivalries, as each discipline sees itself as the natural guide to mental health in the community.

The future of the mental health service delivery system will be determined by the form of national health insurance that emerges in the next few years, but it is unlikely that a much closer integration between psychiatry and other health services can be long de-

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layed. CMHC's and their experiences have pointed to its desirability. At the same time, the prospect of that integration is becoming less painful. The difficulties that psychiatrists have had in working with other specialties have been reduced by, among other things, the development of pharmacological treatments, psychiatrists' increasing experiences as part of general hospital teams and, indeed, psychiatry's beneficently constricted feelings of omniscience and omnipotence.

A fundamental question raised in this period of transition for the mental health professions is how to maintain without interruption their real strengths. Fifteen years ago policy error was likely to be on the side of expecting too much from these then exuberant professions; now the danger exists that the mental health professions will suffer as a result of indiscriminate and exaggerated denigration.

Psychiatry and the allied professions offer essential services not only to troubled individuals but to our general society as well, ranging from informed and persevering advocacy on behalf of children—a constituency easy to ignore—to patient biochemical research designed to understand and hopefully to alleviate severe depression and schizophrenia. The validity of their role within our institutions cannot be eliminated by the invective of their shrillest opponents. The persistence and effects of behavioral problems are not greatly altered by rhetoric—no more than "sick" communities could be reformed through homilies on community psychology. By endorsing and funding psychiatry's more grandiose claims, the CMHC program's most enduring contribution may have been to lead the profession to a clearer sense of reality and of its own areas of greatest competence.

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On the making of perfect and beautiful social programs

WILLIAM C. BAER

WHEN Charles Darwin first published *On the Origin of Species*, a reviewer in the *Athenaeum* thought fit to demolish his thesis with the following comment:

> In the theory with which we have to deal, Absolute Ignorance is the artificer; so that we may enunciate as the fundamental principle of the whole system, that, IN ORDER TO MAKE A PERFECT AND BEAUTIFUL MACHINE, IT IS NOT REQUISITE TO KNOW HOW TO MAKE IT. This proposition will be found, on careful examination, to express, in a condensed form, the essential purport of the Theory, and to express in a few words all Mr. Darwin's meaning: who, by a strange inversion of reasoning, seems to think Absolute Ignorance fully qualified to take the place of Absolute Wisdom in all the achievements of creative skill.[1]

What appeared to be a devastating comment in an age that believed in a Master Artificer has since been accepted as a succinct conclusion regarding the processes of evolution. That is, mindless mutation and cumulative chance, when coupled with the operation of natural selection, may work together to produce a wonderfully complex system.

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[1] Quoted in Garrett J. Hardin, *Nature and Man's Fate* (New York, Rinehart, 1959), p. 301.

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Although the Master Artificer may have yielded to Absolute Ignorance as an explanation for the development of complex phenomena in the natural sciences, in the fields of social science and policy analysis, this is not yet the case. Here the ideal of an artificer of social policy still reigns supreme. Ignorance is pitied, if not despised, as being incapable of creating effective policy. Although the social policies devised in the 1960's (particularly the overtly redistributional ones) are now widely acknowledged largely to have failed, the fault is believed to lie in the poor quality of their craftsmanship, not with the concept of craftsmanship itself. These policies failed, it is explained, because they were not skillfully wrought, and because the workers were still apprentices who did not fully understand the limitations of the materials at hand. But recognition that successful results in social programs can also be accomplished through ineptness and ignorance, and that this success can be maintained through "benign neglect," has not yet been widely forthcoming. It may prove instructive, therefore, to present an example of an almost perfect and beautiful social program (whose only flaw lies in its peculiar social effects). This program is subtle in its workings, robust in its adaptability, and powerful in its social impact. Yet it was deliberately designed by no one: It was an accident. I am speaking of the homeowner deduction provisions in the federal income tax. These provisions comprise a housing subsidy program which makes the deliberately created direct housing programs look feeble in impact, and inept in program effectiveness.[2]

Homeowners have the right to deduct mortgage interest and property taxes from their adjusted gross income before having to compute their income tax. These are just special cases of two general classes of allowable deductions—deductions for interest and deductions for taxes. Nevertheless, they comprise the bulk of these types of deductions and jointly comprise an indirect housing subsidy

[2] Some may question whether these deductions properly constitute a "program." They were not established with a program in mind; they have only recently been widely viewed as having the effect of a "tax expenditure" program. This concept stems from economists' efforts to devise a true measure of income and a pure theory of income tax. In the process, they have unwittingly evolved a peculiar notion of government vis-à-vis the governed. Carried to the extreme, such a theory of tax expenditures would view any income left to the individual after taxes as a mere residual, the result of a governmental act of grace. This point has been most recently argued in these pages by Irving Kristol (*Public Interest*, No. 37, Fall 1974). Nevertheless, to ignore the effects of these exemptions and deductions is to accord them some divine rights, beyond all scrutiny. In the case of the homeowner deductions, the magnitude of their impact, the scope of their coverage, and the rate of their growth are all too important to ignore. Placing them in the context of a program affords the opportunity for some interesting comparisons with more accepted notions of programs.

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for homeowners: Their effect is to "save" taxpayers from paying a portion of their taxes which otherwise would have to be paid. The amount saved is dependent upon the applicable tax bracket. If the taxpayer is in the 14 per cent bracket, home-related deductions totaling $1,000 are worth $140. If the 50 per cent bracket is applicable, then the saving, or subsidy, is $500.

The details of these deduction provisions, and their intricacies and justifications, have been reported elsewhere and need not be elaborated here.[3] Instead, we will compare the workings of this *indirect* housing subsidy program and its effects with the *direct* housing subsidy programs administered by the Department of Housing and Urban Development (HUD). While the recent 1974 Housing and Community Development Act has abolished (at least temporarily) the HUD programs used for comparison here, the thinking which lay behind them and their parallel with other socially oriented programs make them a useful vehicle for comparison. The difference between the direct housing subsidy programs and the more indirect subsidies accruing from homeowner deductions is so great, and the HUD programs fare so badly by comparison, that in order to avoid the charge of bias, the source used, wherever possible, will be HUD's recent report, *Housing in the Seventies*.

Deductions versus subsidies

In 1972, the federal subsidized housing programs provided approximately $2.5 billion in subsidy. These programs included public housing, 221(d) (3) housing (below market interest rate), rent supplements, and section 235 (homeownership) and 236 (rental) housing. These programs served low- and moderate-income households, with incomes generally ranging between $2,000 and $7,000 annually.

By contrast, the housing assistance provided by homeowners' deductions in 1972 amounted to $6.2 billion. Other income tax provisions (deferred payment of capital gains and special provisions for the elderly) conferred another $1.7 billion on homeowners. The combined total amounted to almost $8 billion. This total counts neither the subsidy provided to homeowners through deferred capital gains from past years (amounting to approximately $1.3 billion) nor the value of imputed rent to homeowners (the value of the

[3] See for instance, Henry Aaron, *Shelter and Subsidies* (Washington, D.C., Brookings, 1972) and U.S. Department of Housing and Urban Development, *Housing in the Seventies* (mimeograph, October 1973).

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housing services received during the year less the cost of providing the housing[4]), which was estimated at an additional $6 billion.

Unlike the direct housing subsidies, these homeowner deductions and other tax programs largely benefited the middle- and upper-income classes. Of the $6.2 billion accruing to homeowners through deductions alone, $5.5 billion (89 per cent) went to taxpayers with incomes of $10,000 or more. Upper-income taxpayers benefited even more than did middle-income taxpayers: Homeowners with incomes between $10,000 and $15,000 received a $153 average annual subsidy, whereas those with incomes between $50,000 and $100,000 received an average of $1,397.

In other words, by conservative estimate, low- and moderate-income households received only about one-third the amount from *direct* subsidy programs that middle and upper incomes did from *indirect* subsidies. Even if that portion of assistance from welfare payments that is spent on housing (about $2.6 billion in 1972) is added to the direct housing subsidy programs, the combined total is still only 70 per cent of the amount from homeowner income tax deductions alone.

A related consideration is the number of households served by the different programs. In 1972, approximately 1.7 million households were assisted by the direct subsidy programs. During the same year, about 24 million households were assisted by the homeowner income tax deductions. In other words, the income tax deductions assisted 14 times as many households as did the direct subsidy programs.

It is true that the average direct subsidy per household was three to five times that for the average homeowner declaring the deductions. The nature of the direct subsidy programs is such that a small proportion of those eligible receives a substantial subsidy while the majority receives nothing. The income tax deduction provisions insure that the federal largesse is distributed somewhat more widely among eligible households. Even so, the subsidy accruing to those with incomes of $100,000 or more was 2.5 times larger, on average, than the subsidy going to, say, public housing recipients with incomes of $3,000 or less.

Finally, the housing programs demonstrated a capacity for growth —partly because their starting base was so meagre. In 1960 some

[4] Technically, imputed rent can be calculated for any owned capital good, e.g., an automobile, a washing machine, etc. In the case of housing, imputed rent is the net rental value, which equals the gross rental value minus maintenance expense, depreciation, mortgage interest, taxes, and insurance.

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446,000 households were served by the housing programs. This increased to 1.73 million by 1972, or a 300 per cent increase. The amount of subsidy increased from $221 million to $2.5 billion—a more than 1,000 per cent increase. By comparison, the homeowner income tax deductions covered about 15 million households in 1960, and increased to 24 million by 1972, or only a 60 per cent increase; but the absolute increase was 7.5 times larger than for the direct subsidy programs. Similarly, the amount of subsidy increased by $2.6 million, a 210 per cent increase; and, despite a lower percentage increase, the absolute amount was nevertheless larger than that of the direct subsidy program.

Standards for comparison

Clearly, the number of households involved and the amount of subsidy provided demonstrate that the homeowner deduction provisions comprise a major social program. Unlike so many social programs, these provisions have "worked" remarkably well in making an impact. Indeed, it may be argued that they have worked too well. By encouraging middle- and upper-income households to "overconsume" housing, they may have made more difficult (and costly) the intended impact of the direct housing programs.

But the comparison between the two types of programs need not end here. While it is important to know the ultimate impact of programs, an even more important consideration is whether that impact was intended. Here we should go beyond simple descriptions of who gets what expressed only in terms of different income classes receiving certain amounts of subsidies. We should know, for instance, if some within an income class are legally or administratively ineligible to receive assistance or are otherwise discriminated against. Similarly, we should be interested in knowing not only *how much* assistance is received but also *when it is received.* Finally, we should like to know whether these aspects taken collectively accomplish national goals.

The perfection and beauty of social programs, however, is not confined solely to their impact. Just as we marvel at species of animals and plants for what they do, so also do we wonder at their ability to survive and evolve over time despite a merciless environment. A program's capacity for longevity in a political environment where many are short-lived must be considered an important facet of its construction. The key is the ability to adapt to a changing environment—even to make the changes work to one's advantage.

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The homeowners' deduction provisions are remarkable social mechanisms by these criteria as well. Their processes are considerably more subtle yet hardier than the processes of the direct subsidies—and not least their art of camouflage. Furthermore, they tend to amplify the above-noted differences in impact, particularly those which do the most to thwart the effects of redistributive programs.

To make further comparisons between the two types of programs, it will be helpful to indulge in a fiction. We can pretend that the direct housing subsidies are for the purpose of helping low- and moderate-income households, whereas the homeowner income tax deductions are for the purpose of assisting middle- and upper-income households. Thus each program has a client group to be served as effectively as possible. This is not an unrealistic fiction. Although the homeowner deductions were never originally designed to help the middle- and upper-income classes, the inequities of the program have been ignored for a long enough period, and subsequently shielded enough times from adverse changes, to indicate that Congress is not displeased with its results. Armed with this fiction, we can analyze the programs from several additional aspects.

Congressional oversight

From the perspective of a client group, it is desirable to have Congressional good will toward an assistance program, but not too much scrutiny. Other interest groups inevitably raise issues of program abuse, cost-overruns, and general misallocations (if not misappropriations) of the taxpayer's money. The two types of housing programs are excellent examples of two different Congressional and Executive approaches to this problem.

Most direct subsidy programs are designed as closed systems, and hence they ensure close scrutiny. The upper limit to the authorizations and appropriations are specified; frequently maximum costs per household are spelled out as well. Since it is sometimes recognized that different communities across the nation do not face a uniform environment, certain exceptions to the limits are allowed which partially acknowledge such differences. Nevertheless, the legislation is so designed that the programs are unable to react to changed national circumstances until subsequent amendatory legislation is passed.

There may be good reason for exercising this control: It provides a means for projecting the upper limit of expenditures; it provides

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a check on administrative interpretations of legislative intent; it reduces uncertainty regarding programmatic operations during a designated period; and in general, it provides for priorities among different programs. But from the clients' point of view such controls are vexing indeed. It is preferable to have an open system which merely specifies general procedures to be followed in distributing subsidies, and then allows outside events or the clients themselves to shape the magnitude of the program.

The differences between open and closed systems are those between the indirect and direct housing assistance programs. Each of the different HUD assistance housing programs had an appropriation which specified the upper limit of expenditures for the program as a whole, and sometimes for a household or dwelling unit as well. The homeowner deductions have no such limits. The amount of the subsidy both per household and per dwelling unit, as well as the amount of subsidy for the total program, is left to the discretion and resources of the clients. The only limit is a self-imposed one, governed by the taxpayer's income and assets, the cost of the home, the amount of mortgage interest and property taxes, and the frequency with which the homeowner decides to buy a new home or to re-finance the existing one. Indeed, not only is there no monetary limit per household, there is not even a legislated limit to the number of housing units per household that may be counted in the deductions.

Eligibility requirements

Closely associated with the HUD expenditure limits is the issue of eligibility for program assistance. From the recipients' perspective, a minimum of eligibility hurdles is desirable. Eligibility requirements impose time and psychic costs upon the applicants (uncertainty of administrative determinations of eligibility) and are at times so onerous as to discourage application. In the case of the direct subsidy housing programs, the eligibility criteria are income of the household (both maximum and, surprisingly, sometimes minimum as well), family size, age of the head of the household (in the case of programs designed for the elderly), condition of the unit previously occupied (e.g., substandard), and reason for having to move (e.g., displaced by governmental action such as code enforcement or renewal). Clearly these criteria serve to screen out otherwise deserving households. They become a rationing device for limited funds.

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In the case of the homeowner deductions there is only one eligibility requirement: The household must own its home. No other consideration is important, not even how high the household's income is. Furthermore, there is no special processing of forms or administrative review prior to receiving the benefits. The taxpayer makes his own self-evident determination of eligibility in the course of filling out his income tax form. Further, there is no limit to the income tax subsidies, in contrast to the direct housing subsidies. For those who can afford it, the house in an exclusive portion of the city, the cottage by the beach, and the condominium at a ski resort are all simultaneously eligible for subsidy. No rationing device under the guise of eligibility requirements need be applied—the funds are potentially unlimited.

Finally, there is another dimension of eligibility: whether the household is eligible for the subsidy regardless of where it is located, or whether the housing unit itself must also pass eligibility muster. The HUD direct housing programs provide that eligible households may receive the assistance only if they locate in a housing unit provided the assistance. That is, if the unit was not financed or otherwise assisted through one of the specific programs, the household cannot receive the assistance. In a tight rental market, this may prove a severe hardship. The members of the household may find that they should move because of a change in job or family circumstance, but then find they cannot take their assistance with them, so the move will mean substantial rental increases for an equivalent unit.

There is no such restriction for the indirect housing subsidy assistance. The subsidy will be provided wherever the household locates, so long as the household owns the unit.

Bureaucratic response

Another aspect of the differences between the two systems is in the time of system response. Client groups prefer to receive whatever subsidy is available as soon as possible, without interminable bureaucratic delays. The direct subsidy housing programs were notably slow in delivery of the subsidy. For instance, once a housing program had been passed there was no guarantee that funds would be appropriated for it. If they were, administrative regulations had to be devised to interpret the legislation. Then they had to be disseminated and interpreted at regional offices. Typically, the subsidy was in kind rather than in cash, so the funds were filtered

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through financial institutions, the construction industry, real estate developers, and investors. Here again, bureaucracy was largely responsible for delays. For instance, whereas in the private market a multiple housing unit might take from one to one-and-one-half years to be completed, public housing units typically required from three to four years. Processing time for a 221(d) (3) application was estimated at 376 *working* days, and it took six years to produce the number of units that had been set as an annual goal. Recipients of the direct housing assistance programs could expect to wait a number of years after enactment of legislation before they could enjoy its benefits.

The homeowner's deduction subsidy suffers no such delays. The subsidy is received (or at least taken into the owner's calculations) the day the income tax legislation is passed. To be sure, the Internal Revenue Service (IRS) is not without its own interpretations and clarifications, but these are after the fact, and apply only when the tax returns are challenged.

The anomaly is evident: *Direct* housing assistance, despite the force of the term, is slow in reaching the recipient and arrives in obfuscated form; the *indirect* income tax housing assistance is immediate in impact and more sharply defined.

Furthermore, the direct expenditure programs must be formulated each year by the executive branch; presented to the appropriate Congressional committees, where they are revised or eliminated; approved by Congress; and then interpreted by the agencies in charge of implementing the legislation. During the 1960's, major housing bills were enacted almost every other year. If the cost of living rose, new expenditure limits had to be formulated, debated, and voted on or administratively approved. If changes in the demographic characteristics of the nation occurred over time, altering the number of those in need or technically eligible for the program, new evidence had to be presented and debated before change, if any, was forthcoming. The shifting national economic scene during the 1960's, with inflation, increasing propensity to establish separate households, changing cost of money, special increases in construction costs, etc., meant that applicable programs inevitably lagged behind the current situation. The programs ultimately enacted were never precisely tailored for the then current circumstances.

The housing tax expenditure program, on the other hand, although not intentionally, is an instrument remarkably sensitive to the current economic situation. Tax programs affecting housing are not legislated frequently (although when they are, they go through many

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of the steps described above). Even more important, the deduction provisions are remarkably sensitive to economic and demographic changes that take place in the nation. House prices rose some 40 per cent during the decade. This meant that new buyers continually had to incur larger mortgages. But rather than having to wait for legislation to lift the allowable amount for mortgage deductions, recent homebuyers simply deducted the larger amount. Interest rates also increased during this period, which meant still higher mortgage repayment amounts for interest. Here again, these increased amounts could be deducted automatically. Property taxes rose considerably during this period as well, but these increases also could be immediately included in the homeowner's deductions.

Similarly, as a result of inflation as well as real gains in salaries and wages, household incomes also increased. This had the effect of placing many households in a higher income tax bracket, meaning that a higher percentage of homeowners' mortgage and property taxes were subsidized.

Real and symbolic benefits

The close control exercised over direct subsidy programs meant that beyond some limit there were no more benefits forthcoming per household. While not strictly negative, in the sense that receipt of assistance in one time period reduced the amount received in the next, the programs were designed to provide a previously declared maximum and no more. The only exception was the public housing program, which, because of a maximum income limitation, forced those households who over-earned into worse housing than they received from the public housing authority.

In the case of the homeowners' deductions, however, the more that is earned, the larger the subsidy for every mortgage interest and property tax dollar expended. This is owing to the progressively higher tax bracket rate applied to increases in income. Further, one part of the subsidy system may assist in enabling homeowners to take advantage of other parts. For instance, the mortgage interest subsidies encourage borrowing on the home. The interest is deductible, and the thinner the equity in an inflationary market, the greater the ability of the homeowner to practice the real estate investor's principle of leverage. This means that, at the time of sale, a $10,000 gain is a greater percentage return upon a small equity than if the owner had largely paid off the mortgage, and had accumulated a large equity.

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Furthermore, payment of any capital gains tax from the increased selling price may be deferred if another house is purchased within the year. This amounts to an interest-free loan by the federal government. To the extent that the deferred capital gains tax is used to assist in buying an even more expensive house, the increased mortgage interest costs, if any, may be deducted, along with the increased property taxes. To be sure, the homeowner will incur increased out-of-pocket housing expenses, but at least a portion of any increase in housing cost will be subsidized. Finally, other benefits may accrue through increased imputed rent. From this perspective it is clear that the homeowner is encouraged to consume just as much housing as he possibly can.

From the clients' perspective, it is important that their program have the right symbolic connotations. At worst, the program should be perceived as insignificant in the overall scheme of things; more desirably, it should be seen as necessary to the nation's health and prosperity, and even better, as a fundamental right besides. Such interpretations by the public as well as by Congress do much to ward off attacks on the program and otherwise encourage benign neglect.

The differences between the two types of programs here are remarkable. Welfare or assistance to the poor has at best been grudgingly granted throughout most of the nation's history, and housing assistance for these groups has been particularly resisted. But housing assistance for middle- and upper-income groups has no such history of resistance. Housing has traditionally symbolized an important facet of the American way of life. The log cabin and subsequently the single-family home have been the physical manifestation of rugged individualism and have been encouraged by homesteading acts, Federal Housing Authority (FHA) and Veterans Administration (VA) programs, and the like. Direct housing assistance to low- and moderate-income households (which is largely for multi-family rental units) challenges this symbol and has been strongly opposed for a long time. Indeed, initial federal intervention in housing was not even for the benefit of those most in need. The first federally-assisted housing was war housing built for defense workers in World War I, and sold following the war. The Depression initially brought forth efforts to help only the middle class with their housing through assistance to the housing finance institutions (Federal Home Loan Bank, FHA, etc.). The first federal effort of any note to assist the poor—public housing—was not commenced until 1937, and it was justified primarily as a basis for stimulating

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the economy in the construction field. Differences over public housing provisions delayed the first housing act following World War II for four years (until 1949) despite the lack of housing for returning veterans. The total number of public housing units built by 1969 matched the number that had been authorized to be completed by 1956. Not until the middle 1960's did housing for low- and moderate-income households get built in any significant numbers. Housing assistance for these groups apparently commands little support and even less commitment.

The homeowner income tax deductions have suffered no such stigma. For one thing, they are widely perceived to be a tax program, not a housing program. For another, since they provide a rebate of sorts, they are a popular part of the tax program. Furthermore, because they are one of many "backdoor spending" programs that receive no annual legislative review, the "expenditures" make no political headlines and the complex way of calculating the expenditure does not make for good media copy. Thus program salience is blunted by use of an alternative label, and the significance of the program's impact is obscured by its indirectness and technical complexity.

If the deductions *are* seen as part of a housing program, it is claimed that they encourage homeownership—a powerful political and cultural symbol. Further, these deduction provisions hark back to the Civil War, when the first income tax was passed, and they were part of the original tax code when the income tax was reinstituted in 1913. They thus take on the symbolic connotations of a fundamental right, established with the founding of the income tax itself.

Without these symbolic connotations it is no wonder that the direct housing programs have endured close scrutiny by many Congressmen fundamentally suspicious of their merit, and have had close legislative supervision of their details. Similarly, it is not surprising that Congress and the Executive branches have largely ignored the homeowner deductions, and turned their attention to seemingly more important social issues.

Racial discrimination

The direct housing subsidy programs have practiced racial discrimination and segregation in the past, although efforts are being made to rectify this. The homeowner deduction program practices no racial segregation—it is unable to dictate where minority groups

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can live—but it does assist in racial discrimination, although unintentionally. The discrimination is merely the result of an unequal distribution of wealth and income between the various races. Of all white households in 1970, 65 per cent were owners; of all non-white, only 38 per cent were owners. Thus a smaller percentage of most minority groups are eligible for the homeowners' subsidy to begin with. They cannot pass the single criterion of homeownership, either because they do not have sufficient income, or because even with a sufficient income they do not have enough cash to make a down payment. But the discrimination goes further. The non-white homeowners have, on average, substantially lower incomes than do whites. In 1970, white homeowners had a median income of over $9,700, while non-white homeowners had a median income of approximately $6,500. Thus, on the average, the amount of subsidy per housing dollar expended is slightly lower for non-white households. There is an unintentional and unanticipated skewing of whatever subsidies are available to homeowners away from minority groups—those who in general may be the most in need.

Absolute Ignorance as artificer

Clearly, the homeowners' income tax deductions comprise a subtle, powerful, and immensely successful program—albeit with social effects at odds with the goals of direct social programs. More remarkable still, however, was their formulation. The Master Artificer turned out to be Absolute Ignorance. No one intentionally created this program—it was an accident, the unintended but joint effect of several different actions. Nor was the program created overnight in the way so many direct social programs have been. Conception took almost 50 years—from 1861 to 1913; almost 30 more years lapsed before the program took its present shape in 1942. Full growth has taken still another 30 years.

The first income tax in the United States was for purposes of financing the Civil War. Nevertheless, Congress took the time to be more specific about the relation of housing to the income tax than it did in the subsequent re-enactment of the income tax in 1913. During the Civil War not only were homeowners allowed to deduct mortgage interest and property taxes (because interest and taxes in general were deductible), but renters were allowed to deduct their rental payments as well. Even imputed rent was specifically mentioned in the legislation (it was not taxable).

In the 1860's the subsidy effects could not have amounted to

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much. The applicable tax brackets were too low; the number of taxpayers, too few. Incomes between $600 and $10,000 were taxed at three per cent; those over $10,000 at 10 per cent. Moreover, the percentage of homeowners was lower than today. Exact percentages are unknown for 1860, but an estimate for 1890 places the proportion at 48 per cent homeowners, 52 per cent renters.

The Civil War income tax expired in 1872. A new income tax was not enacted until 1913, following adoption of the Sixteenth Amendment. The new income tax provisions took less notice of housing than did those during the Civil War. Renters were allowed no deductions, and there was no mention of imputed rent. Interest and taxes were allowed as deductions, in part because Congress appeared oblivious to distinctions between business and personal expenses. The few attempts to point out the differences in how the deduction provisions would effect owners versus renters were ignored by the other members of Congress.

In 1928, an effort was made in the House to permit owners of cooperative housing to deduct their share of the cooperative's interest and property taxes so as to place them in the same position as other homeowners. It was opposed by the Senate because it would be difficult to administer, and because "such deductions were not given to the great number of individuals who lease apartments." In 1942, however, the issue was raised again, this time by the Senate, and it was passed. Neither in 1928 nor 1942 did the proposed legislation engender any Congressional debate. Even the committee reports barely made mention of the provisions.

Again, the net impact of these provisions in terms of homeowners' subsidies probably did not amount to much. Between 1918 and 1938, for instance, only 10 per cent of the nation's total population was covered in the income tax returns. The income tax was not yet a "mass tax." Furthermore, the tax rates were low, so that deductions had less of an impact. Until 1941, there was a two tax system, the normal tax and a surtax. The normal tax was either a single rate or a progressively stepped one (varied over the years) but was never higher than eight per cent, and was a constant four per cent after 1934. The surtax was graduated, but the actual rates fluctuated widely from revenue bill to revenue bill. Summary is difficult without becoming tedious, but in general, the surtax would run from one per cent beginning with incomes of $5,000 and would exceed 50 per cent for incomes over $500,000. Since the average income during this period was roughly $2,000, the progressive nature of the surtax did not affect many taxpayers.

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Just as the Civil War was the occasion for the first income tax, World War II gave rise to its present-day form. The two major changes that occurred with the 1942 Revenue Act were the sharp increase in the tax—the starting tax rate was 23 per cent and increased up to 94 per cent for incomes in excess of $200,000—and the markedly larger proportion of income earners who were subject to paying a tax.

By 1946, for instance, 87 per cent of the nation's population was covered. Thus the income tax had changed from an economic elite tax to a "mass tax," and in addition provided for a high initial tax rate base with steeply increased progressive rates. With these two basic changes, the potential effect of granting homeowner deductions was substantially increased. Not only was the position of homeowners enhanced vis-à-vis renters, but the progressive nature of the tax meant that deduction provisions substantially assisted the wealthy over the poor.

The advent of this new coverage required an offset. The elaborate record keeping required for deductions by wage earners with relatively low incomes has little justification. Accordingly, the standard deduction provision was enacted. Originally, a standard deduction of 10 per cent of income up to $5,000 was permitted. This was subsequently changed to 10 per cent up to $10,000 in 1948. Although the items that presumably composed this standard deduction were never spelled out, they implicitly included housing expenses for both owners and renters, thereby equalizing the housing assistance for owners and renters with low and middle incomes who chose not to itemize.

Although the impact of these changes on *housing* might have been anticipated by the legislative and executive branches, it appears that it was not, and there was no discussion of possible effects. Congress was too preoccupied with the overall magnitude of the changes (e.g., in the coverage and the tax rates), and with the exigencies of the Second World War and the pressing costs of supporting the war effort.

Thus the overall program was born. The principle and precedent of allowing unlimited mortgage interest and property tax deductions, established in 1913, coupled with the change almost 30 years later of making the income tax a mass tax with high and progressive tax rates, produced the basic program, one that had not even been a gleam in anyone's eye. The program was to mature in a benign environment of studied neglect along with an occasional low-key (but significant) tax code change.

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The failure of reform

In 1951, another income tax provision was added to assist homeowners. Congress permitted homeowners who sold their house and purchased within a year another one of equal or higher value to defer payment of any capital gain realized (sales price of the original house less its original cost plus capital improvements, if any). Furthermore, if the homeowner were to die while deferring the gains, the gains realized were exempt from taxation. The purpose here was to alleviate hardships associated with household relocations brought about by the Korean War mobilization, and to ease the purchase of larger housing by growing families.

Until the 1960's, the two major factors relating to homeowner deductions—the number of persons affected and the applicable marginal tax rate—were determined on income tax policy grounds alone. Considerations as to the effect on housing policy were entirely absent. On the occasions when the income tax was viewed as a vehicle for housing assistance, the result was aid for owners of cooperative housing (few low- and middle-income groups lived in such housing in the 1940's) or tax breaks for homeowners fortunate enough to have a capital gain when they sold—an inducement to such homeowners to consume even more housing if they bought again.

When coupled with the assistance provided homeowners from VA and FHA mortgage guarantees and loans, it is not surprising that the homeowners' income tax provisions helped homeownership increase from 44 per cent of the nation's households in 1940 to 62 per cent in 1960. This growing base of political support may also explain legislative attitudes toward reform efforts during the 1960's. These ranged from benign and studied neglect in Congress as a whole, to outright hostility in committee.

In 1963, the Kennedy Administration proposed a substantial tax reform. Among the provisions was one eliminating a percentage of all personal deductions in order to make up the deficit occasioned by the proposed lowering of marginal tax rates. The lowest marginal rate was to be reduced from 20 per cent to 14 per cent, the highest from 91 per cent to 65 per cent, with similar reductions in the intervening tax brackets. To finance the revenue loss (estimated at $2.3 billion) the Administration proposed broadening the tax base through a means which affected homeowners—limiting itemized deductions to those which were in excess of five per cent of the taxpayer's income.

Although the Kennedy Administration anticipated a fight, it underestimated its intensity. Only one member of the Ways and Means

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Committee favored the proposal. Of the more than one hundred groups to testify before the Ways and Means Committee, only one supported it; the opposition ranged from the United States Chamber of Commerce to the Girl Scouts.

Much of the opposition was due to the anticipated effect on charitable contributions, but a sizable proportion revolved around the implications for homeowners. The thrust of the testimony before the Ways and Means Committee on the implications of the reform for housing included one or several of the following eight points:

There were inequities between owners and renters in the reform proposal.

Homeowners were already at a disadvantage vis-à-vis renters, and should be given additional benefits such as deducting depreciation.

Potential homeowners would prefer to rent, whereas national policy was to encourage ownership.

The measure would retard purchasing of houses.

The measure would reduce new homebuilding activity.

Rather than falling most heavily on the upper-income owners, the measure would be borne largely by low- and middle-income owners.

The measure went against precedent stemming back to the Civil War.

The real estate-related industries had not been consulted.

These were not necessarily unassailable charges. They ignored Treasury presentations, and additional counterarguments could have been marshalled if desired. But the Committee's mind appeared set against the provisions from the start. Indeed, some members of the Committee seemed to encourage testimony along these lines. The issue was not even put to a vote in committee; the *status quo* was perceived as satisfactory.

The following year Congress exhibited marked concern for a certain class of homeowners—the elderly. The provisions for deferring capital gains had become a hindrance to those elderly who wished to move to a smaller home, and to invest the gain from sale of their house in other revenue-producing assets which would assist in retirement. Accordingly, the Revenue Act of 1964 provided that any capital gain on a house sold by a taxpayer 65 years or older for under $20,000 would not be taxed, and that only a portion of the gain derived from a unit sold in excess of $20,000 would be taxed.

More recently, in 1969, for example, the issue of renters being treated on an equal basis with homeowners was directly raised in a bill which allowed renters to deduct from their income tax their

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proportionate share of real estate taxes and mortgage interest accruing to their rented unit. In testimony before the House Committee on Ways and Means, it was argued that such a provision would alleviate a currently inequitable situation between owners and renters, and that this provision would be particularly beneficial to the elderly. The proposal and accompanying testimony elicited little interest on the part of the Committee during the hearings, and the bill died in committee.

The issue has not yet been brought to an end. In recent years there have been numerous bills introduced in Congress pertaining to this area. Some have sought to assist renters through deductions, others to assist homeowners even further through still more deductions. None has met with much success.

The need for humility

The workings of the homeowners' indirect subsidies from income deductions reveal a social program of considerable impact, complexity, and effectiveness. They provide subsidies in an amount many times that provided by the direct housing programs, and to many more households. There is no legislated upper limit per household on the amount of subsidy that can be received, nor are there any onerous eligibility requirements. Furthermore, the assistance is received immediately. Any changes in the nation's economy, such as inflation, are automatically taken into account in the computation of subsidy. In addition, the program is cloaked in the requisite symbolism: It has low visibility, it is deemed to promote a worthy cause, and it is perceived as a virtual right. That it discriminates against minority groups can be explained all too conveniently as merely an unfortunate side effect of its basic workings. While never an intended subsidy, this accidental social program has been shielded from adverse change over a number of years, and occasionally has even been given a low-key but effective boost from Congress. Although Absolute Ignorance was its creator, the workings of the program are worthy of any Machiavellian artificer.

The implications for national housing policy can only be touched upon here. Despite the inequities of the homeowners' income tax deductions, there are some good reasons for not eliminating them, although some reform is obviously warranted. At a minimum, some upper limit should be imposed on the amount of the deductions taken per household. Moreover, closer policy links between the assistance provided by this type of social program and the more di-

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rect kinds of housing programs should be considered. To the extent that standard housing is, as Nathan Glazer has suggested,[5] increasingly a relative measure, determined in part by the quality of housing that middle- and upper-income households are able to purchase or consume, the trend of the homeowners' indirect subsidies helps to raise this standard ever higher. This means that still larger subsidies for the low- and moderate-income households will be required in a futile attempt to "narrow" the gap.

A quick reading of the Housing and Community Development Act of 1974 might suggest reason for optimism. By eliminating most of the direct housing programs described above, and substituting a block grant approach, the Act suggests movement in the direction of the indirect subsidies. Still, there are decided differences between block grants and direct individual household assistance. The chances of a *marked* improvement over the old programs are slim, but perhaps slight improvement is all we should ever hope for. It is clear, however, that the monetary differences between the two types of programs will not change in the near future. Homeowner deductions for fiscal 1975 have been estimated by the Joint Economic Committee at $8.3 billion. The authorization for the Housing and Community Development Act of 1974 is $11.3 billion over a three-year period, or less than half the indirect subsidy amount in any one year.

Regardless of the substantive merits and demerits of the indirect housing subsidies in principle, their impact has been decidedly at odds with accomplishing the goals of the direct housing programs. Furthermore, the very nature of these indirect programs, with their subtle yet vigorous workings that benefit a broad-based clientele, suggests a social program model which bears study and examination by policy artisans, even if it may not warrant emulation. Finally, it suggests the need for a certain degree of humility when we come to designing perfect and beautiful social programs. The task is extremely difficult. So far, Absolute Ignorance has mastered it as well as any policy artificer.

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[5] Nathan Glazer, "Housing Problems and Housing Policies," *Public Interest,* No. 7 (Spring 1967), pp. 21-51.

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The Krogh file—the politics of "law and order"

EDWARD JAY EPSTEIN

UNTIL 1968, the "law and order" issue in American politics was confined mainly to the state and local levels. Scant mention of this theme can be found in any prior Presidential campaign. To be sure, a fair number of aspiring politicians had earlier used "crusades" against putative criminal conspiracies—notably, the "Mafia"—as a means of achieving a national reputation. In the late 1930's, for example, Thomas E. Dewey, then district attorney and special prosecutor in New York City, made a name for himself nationally by holding a highly publicized investigation of "Murder, Incorporated"—a wholly fictive organization he invented for the purpose of calling attention to organized crime (and himself) in the headlines. More recently, in the 1950's, the late Senator Estes Kefauver managed to make a splash on national television—and project himself as a candidate for national office—by rehashing a series of unsubstantiated charges against alleged gamblers and racketeers, who played their part in the spectacle by taking the Fifth Amendment. And Robert F. Kennedy, as Attorney General in the early 1960's, focused the nation's attention on something called the "Cosa Nostra" by presenting a carefully primed "defector," Joseph Valachi, to the national media. The Valachi "revelations" were intended to mobilize national support for legislation expanding wiretap and other authority for the Kennedy Administration.

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Each of these crusades was aimed directly at organized crime, which presumably had a hierarchy of leadership, and therefore success could be publicly demonstrated by indicting, or even severely embarrassing through exposure, a few symbolic "chiefs" (usually bookies). The 1968 crusade to restore "law and order" was, however, a qualitatively different matter: The target was unorganized but real crime—muggings, murder, robbery, and burglary—and the indices for success could not be so easily manipulated.

Richard Nixon did not invent "law and order" as a national issue: It was more or less thrust upon him by the circumstances surrounding the 1968 election. The riots that erupted in Los Angeles, New York, Detroit, Washington, and other cities between 1965 and 1968, while not entirely a new phenomenon in America, greatly added to the urban unease (especially since they were nationally televised). Despite earlier symbolic attacks on organized crime, crime rates had doubled since 1960, and both local campaigns and public opinion polls showed that personal safety from crime was rapidly becoming a dominant concern among the electorate.

Moreover, George Wallace, in his independent bid for the Presidency in 1968, demonstrated that the "law and order" battle cry had great appeal to the working-class population in the North as well as the South. (Wallace, in his primary campaign, concentrated his attack on the softness of the courts towards criminals and the restrictions they imposed on police). Unless Nixon pre-empted the crime issue for himself, Wallace could be expected to exploit it to attract votes among Nixon's natural constituency. Since the election promised to be dangerously close for Nixon, it is not surprising that he chose to make "law and order" a principal issue, or that he saturated television with commercials that showed an obviously nervous middle-aged woman walking down a street on a dark, wet night, while an announcer stated: "Crimes of violence in the United States have almost doubled in recent years. . . . Today a violent crime is committed every 60 seconds . . . a robbery every two-and-one-half minutes . . . a mugging every six minutes . . . a murder every 43 minutes . . . and it will get worse unless we take the offensive. . . . This time vote like your whole world depended on it."

The Domestic Council

After the election was won, and Nixon assumed power, the rhetoric of "law and order" had somehow to be converted into a crime control program. The new Administration's "law and order" policy

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did not spring full-grown from the heads of a small cabal of Nixon strategists; like most other government programs, it gradually emerged from a series of proposals, critiques, counterproposals, and reformulations drafted and redrafted by a multitude of hands representing diverse interests. One level of ideas came from urban affairs scholars, both inside and outside the Administration, who had a serious and non-political interest in the substantive problem of controlling crime; another level of suggestions (and objections) came from the heads of bureaus within the executive branch interested in expanding their activity in the realm of law enforcement; and, as might be expected in the wake of any successful Presidential campaign, a third layer of ideas came from political advisers to the President interested in maintaining a favorable image of him in the public mind.

Ideas drawn from such different perspectives ultimately had to be melded into a single policy, and in 1970, this task was assumed by the newly created Domestic Council. This new White House group, originally conceived of as a sort of domestic counterpart to the National Security Council, was headed by John Ehrlichman, who had served as an advance man on the 1968 Nixon campaign and then as Counsel to the President. Assembling a staff of young men, with little or no previous experience in government, Ehrlichman turned the Domestic "Council" into a kind of filter which reduced the flood of ideas from competing sources to a series of "option" and "decision" papers on given issues. By carefully structuring the pros and cons of various "options" and assessing the political as well as substantive ramifications of possible "decisions," John Ehrlichman and his staff of young analysts (one of whom was Egil Krogh) effectively established a permanent channel of information to the President which was impervious to the qualifications and caveats of scholars, bureaucrats, and even Cabinet officials who had previously contributed to policy.

The rise of Egil Krogh

Egil Krogh, Jr., was born in Chicago in 1939, the son of a Norwegian immigrant. After majoring in English at a small Christian Science college in southern Illinois, dropping out of business school at the University of Chicago, serving three years as a Naval communications officer in the Pacific, and selling hats at a department store in Seattle, he finally graduated from the University of Washington Law School in June 1968. Upon graduation, Krogh was of-

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fered a position in the offices of John Ehrlichman, a Seattle real estate lawyer and long-time friend of Krogh's family—but he never had the opportunity to practice land-use law, as he had planned. Within a few short months, "Bud" Krogh followed Ehrlichman to Washington and was appointed Deputy Counsel to the President, with special responsibility for, among other things, federal law enforcement and internal security matters. Before he had even turned 30, Krogh thus found himself willy-nilly presiding over an unprecedented Presidential "law and order" campaign. Krogh describes what he calls his "learning period" as follows: [1]

> The President viewed law and order as his principal domestic issue. This was communicated directly to me and to others in a cabinet room meeting in late January 1969, about two and one-half weeks after he had taken office. . . . The concept was, "We are a tough, law and order Administration, and we're going to crack down on crime." General terminology like that.
>
> President Nixon had campaigned on the pledge to reduce crime. Again, the rhetoric used during the campaign in 1968 was basically "Get tough". . . . There was a clear motivation to be able to deliver to the electorate in 1972 a record of improvement in crime control. . . .
>
> Armed robbery and burglary were the two crimes the President talked about as the ones that instilled the greatest fear . . . [but] it wasn't ever something that he saw as a directly manageable problem from the White House; street crime was something that had to be handled by local police departments. The President simply did not have direct authority in New York, Boston, Chicago, or Los Angeles. There was a dimly perceived idea that if we were to show a specific reduction in crime, it had to be in the District of Columbia, where the President did have some authority.
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> I had been given the District of Columbia liaison responsibility in February 1969, and I remember in a meeting with the President he said, "Alright, Bud, I'd like you to stop crime in the District of Columbia," and I said, "Yes," I would do that. So I called the Mayor, Walter Washington, and asked him to stop crime, and he paused for a moment and said, "Okay," and that was about it. I am giving you a picture of naiveté in the extreme . . . but in 1969 there wasn't much feel for the kinds of programs that would work in the area of law enforcement and crime control.

The "offensive" against crime

As the first year of the Nixon Administration progressed, it be-

[1] Egil Krogh provided notes, memoranda, decision papers, and interviews for the purpose of this article. Except where otherwise indicated, all quoted material hereafter comes from this source. It should be noted that much of this material consists of internal documents which tend to be written in a rather unpolished form.

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came increasingly clear to all concerned, including the President, that the federal government lacked the wherewithal to diminish street crime in any substantial way. Not only did it lack jurisdiction over the crimes of dread—homicide, assault, mugging, robbery, and burglary—in all the urban centers (except Washington, D.C.), but the established federal agencies, such as the FBI, the IRS, and the Bureau of Narcotics and Dangerous Drugs (BNDD), were extremely reluctant to involve themselves in an offensive against unorganized crime. And even though Attorney General John Mitchell pressed the policy of "centralizing" all federal law enforcement agencies in the Department of Justice under his command—a policy that was bitterly and successfully resisted by most bureaus—there were nowhere near enough federal agents in the entire government to police the nation. Donald Santarelli, a 29-year-old lawyer who had drafted many of the position papers on crime for the 1968 Nixon campaign, and then joined the Justice Department as a strategist for the "law and order" program, reported to the President, John Ehrlichman, and John Mitchell in early 1969 that "the reach of the federal government's power in law enforcement did not penetrate to the state or local level . . . where most of the street crime people were afraid of existed." Santarelli (whom I interviewed) recalls that meeting quite vividly:

> In the light of many promises made in the 1968 campaign, and the unerring belief that the Nixon Administration had to do something dramatic in the area of law enforcement, it was necessary for me to put the actual ability of the federal government in perspective to the President and his top advisors. . . . I told them that the federal government simply did not have the machinery or authority to deal with crime in America outside of the District of Columbia. In the rest of America, the only thing we could do was to exercise vigorous symbolic leadership. . . . With the President and Attorney General as spokesmen, we could elevate the issue of crime to the level of the President . . .

Ehrlichman also told Krogh "there were clear limits on what the federal government could do. You could jawbone for law enforcement, you could hope to stimulate action at state and local levels simply by making citizens aware of the issue." Mitchell, too, agreed that "the tools available to the Justice Department did not bear directly on those [street] crimes." The consensus of the meeting was that the Administration could act more effectively in a symbolic than in a substantive way in its "war" on crime. By proposing such harsh measures as preventive detention, maximum sentences, and "no-knock" raiding authority, while sharply attacking "softness" in the treatment of criminals by the judicial system, the Administra-

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tion would try to mobilize public opinion behind its campaign, and eventually pressure local and state administrations into cracking down on street crime (and reforming their court systems). At the very least, such unrelenting rhetoric would give the appearance of an "offensive" against crime. It might also spur local authorities to take some efficacious action.

"Mr. Law and Order"

The "spokesman" for the crusade was to be John Mitchell. Krogh explains:

> The rhetoric used during the 1968 campaign was basically "Get tough." Ramsey Clark had been symbolic of the laissez-faire liberal approach to crime control. . . . The promise of a new Attorney General was all part of the same idea that crime had gotten so much out of control that he was going to take stringent measures. . . . Mr. Mitchell in 1969 was identified as "Mr. Law and Order" . . . [and] the President felt that he would represent the law and order image that had been developed. . . . The speech writing staff was skilled at, let's say, developing the language of crime control. . . .

Mitchell's public role was thus to portray a remorseless, hardline attitude towards crime and criminals. In both public appearances and private briefings for the press, he was to stress the urgent need for isolating criminals from the rest of society through strict application of the laws and long prison sentences. When, for example, H. R. Haldeman was planning a Presidential briefing on drugs for television writers in April 1970, it was decided that the President would "tie in the Attorney General in such a way as to position him in the minds of TV writers and producers as the spearhead of the anti-drug movement within the Administration." Judges were exhorted not to be "soft" in their sentencing, or to release criminals on procedural grounds. The "crime" bills which Mitchell proposed to Congress provided a further opportunity for calling public attention to the Administration's tough and unyielding stance. Krogh elaborates:

> I would call them [no-knock and pre-trial detention] political law and order bills. . . . The final legislation reflected the rhetoric of the 1968 campaign. . . . It was my view that while these bills would suggest a tough law and order demeanor by the Administration, the legislation itself did not provide an enhanced ability to the police departments or to the courts to reduce crime as such. The no-knock legislation struck me, and also Mr. Ehrlichman, as almost inherently repressive in tone. . . . Jerry Wilson [then Police Chief of Washington, D.C.] stated to me that he had adequate authority to enter a dwelling where there was

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> a probable cause, and to legislate that power through the no-knock bill was unnecessary. . . . He viewed that more as a sort of law and order window dressing than as initiatives that would strike at the core of the problem. . . .

In any case, tough-sounding "law and order" bills were proposed. An internal memorandum in Krogh's Domestic Council file (circa July 1970) entitled "Crime Control and Law Enforcement, Current Status: Political Position for the 1970 Elections" [2] commented: "The Administration position in the crime field depends on our ability to shift blame for crime bills inaction to Congress and concurrently to hammer home comprehensive Administration programs. . . ." The Democratic-controlled Congress, however, rapidly passed even the most repressive-sounding crime bills by lopsided margins.

Although the private views and unpublicized actions of the Attorney General did not always fit the public image being projected of "Mr. Law and Order"—Mitchell asked a more sophisticated public to watch "the deeds not the words" of the Administration[3]—his liberal critics interpreted his bombast quite literally as a call for a national police "crackdown." In fact, there existed a curious coincidence of interests between White House strategists who wanted to depict a hardline Attorney General and some of their Democratic opponents, who wanted to depict a repressive Attorney General. Journalistic accounts (such as Richard Harris' *Justice*) that emphasized the dramatic differences between Ramsey Clark and John Mitchell in their administration of justice dovetailed with the image that both the Nixon Administration and its opponents were trying to cultivate.

This convergence of imagery strongly reinforced the notion that the country was entering a period of political repression—much to the chagrin of moderate members of the Administration. For example, one young staff assistant on the Domestic Council told me that

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[2] This will hereafter be referred to as the "Crime Control" memorandum.

[3] One example of the divergence between the public and private views of Mitchell occurred when President Nixon demanded mandatory, rather than flexible, sentences for drug offenders. According to Krogh, the President said at a Cabinet meeting, "That's my position, and I cannot have it look as if I am weak or receding from a hardline position." Mitchell argued, however, that mandatory sentences would be "irrational" and "counterproductive," and ultimately his private view prevailed. Also, it should be noted, career civil servants in the Department of Justice whom I interviewed, such as Henry Peterson, Louis Palerzi, and John Ingersoll, viewed Mitchell as far more enlightened than his public image indicated. Ingersoll, who was appointed Director of BNDD by Ramsey Clark (and rudely dismissed by Nixon in 1973), said, "At times, when John Mitchell was talking about the administration of justice, and I closed my eyes, I thought it was Ramsey Clark talking."

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after making a tour of college campuses in the spring of 1970 he sensed that "the growing concern over political repression" was being fueled by gratuitously harsh and provocative statements by the Attorney General. In a meeting with Mitchell and his deputy, Richard Kleindienst, the staff assistant cited an example of this sort of "inflammatory rhetoric." By the time he walked back to the White House, word had reached his superior, Bud Krogh, who summoned him to his office. When he tried to explain why he thought the Attorney General's remarks "unnecessarily fed the fear of repression," Krogh responded good-naturedly: "Fool . . . don't you think those guys know what they're saying! Don't you think it's all calculated for a specific purpose?" "From that point on," the staff assistant reflected, "I realized that they weren't trying to correct the charge of repression. . . . It was all a matter of perspective, and from their perspective, a tough image was exactly what they wanted."[4]

The limits of rhetoric

While the symbolic campaign may have achieved success in some quarters—notably, the media—in identifying John Mitchell and the Nixon Administration with the image of a hardline "law and order" campaign, it failed to impress the public at large. The Domestic Council "Crime Control" memorandum began by noting, "According to the polls, the public is not yet persuaded that the Administration has succeeded with the anti-crime drive." What had happened was that the crime statistics, which the memo termed "the major indicator for success or failure," showed a large increase in all the categories of street crime against which Nixon had pledged an "offensive," and newspapers, especially the *Washington Post*, were citing this failure with great concern, if not glee. Moreover, the Administration's record of prosecutions and convictions turned out, upon evaluation, to be much softer than its rhetoric—prosecutions of federal drug cases actually dropped by almost 10 per cent between Fiscal 1969 and 1970. Even in the District of Columbia, where the

[4] The charges, profusely repeated in the press, that the Nixon Administration was engaged in a "genocide" campaign against the Black Panther Party presented another such dilemma for the image-makers in the Department of Justice. The charges were demonstrably false—most of the alleged shoot-out incidents occurred before Nixon assumed office (and while John Mitchell was a bond lawyer), or involved local law enforcement officers in cities such as Chicago, over which the Administration had no real control. But when Daniel Patrick Moynihan, then a Counsellor to the President for Urban Affairs, attempted to have the Justice Department correct the misimpression, his arguments fell on deaf ears. (For an account of the Panthers and the Press, see my "The Panthers and the Police: A Pattern of Genocide?" *New Yorker* (February 13, 1971).

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Administration had direct influence over the local police, crime had increased markedly. Krogh recalls:

> During the period from January to December 1969, the crime rate measured by the FBI reports indicated that crimes per day continued to climb dramatically . . . and during November hit an all-time high. . . . When the President learned the news, he became extremely upset and concerned. He called Mr. Ehrlichman and told him this must stop and that very immediate measures had to be undertaken to reduce the crime rate [in D.C.] by those in the District government, or else he would get a new team.

In the first week of December 1969, John Ehrlichman called the first meeting of his new organ, the Domestic Council, at Camp David to redress the situation. When Krogh was asked what substantive measures had been taken in the area of narcotics and crime control, he answered, with brutal candor, "None." Ehrlichman proceeded to ask other members of the Council what had been done, or was planned, to bring about a real decrease in crime, and he received essentially the same answer from all of them. Ehrlichman then passed on the President's orders: "The crime rate must somehow be brought down."

After the Camp David meeting, Krogh immediately called Graham Watt, the Deputy Mayor of the District, and Police Chief Wilson, and ordered them to prepare a report on what could be done in the District in terms of improving the police force, street lighting, drug programs, etc. Subsequently, resources were poured into the District of Columbia on an emergency basis until there was an appreciable improvement in the statistical crime picture in the capital. None of these measures, however, could be expected to ameliorate fear of crime in the rest of the nation. Despite the Presidential injunction, a national "law and order" program was still beyond the powers available to the federal government—or, at least, the White House. In its prognosis for the 1972 election, still more than two years away, the Nixon strategists could come up with only three goals:

> 1. To be in a position to state that the Nixon Administration has mounted the most massive effort to control crime in the nation's history. Statistical results will come from the District of Columbia, where the Administration has direct control over the number of police and the comprehensiveness of the drug fight.
>
> 2. To have developed certain highly visible efforts in crime area: for example, organized crime crackdowns, drug raids, District of Columbia crime reduction, to clearly demonstrate—in the public mind—totality of the Administration commitment.

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3. To have successfully shifted the burden for responsibility in controlling crime to the state and local governments which have jurisdiction over local law enforcement.[5]

The conservative strategy

The last of these suggested "goals," that of devolving responsibility for crime control to state and local governments, fit in quite neatly with the general conservative view that the federal government had usurped legitimate functions of local government (which presumably ought to be returned), as well as with other Nixon Administration programs like revenue sharing and block grants to the states. Such a strategy could also provide a kind of solution to the dilemma of rising street crime statistics: Since there were 10 times as many local police as federal police, and the local authorities had immediate jurisdiction over their territories, they could more plausibly be assigned the responsibility for the success or failure of crime control. Elliot Richardson, then Secretary of Health, Education, and Welfare, more or less advocated such an approach. For example, in the spring of 1971, his General Counsel at HEW, Will Hastings, drew up a draft for a Presidential message on narcotics addiction, and suggested: "The federal role . . . must be one of leadership, of capacity building. By providing support . . . the federal government can assist state and local agencies in dealing with the problem. For local authorities must assume primary responsibility."

The White House response, however, was not favorable to this conservative strategy. An analysis of the HEW draft by the Domestic Council staff asked critically: "Is the President ready politically to abdicate responsibility . . . by implicitly placing the burden on state and local government?" Krogh immediately realized that such an abdication would *not* be politically acceptable to the President. He subsequently explained to me:

> The President had campaigned on his desire to reduce crime nationwide. Crime had to be stopped. I don't think as a matter of intelligent politics he could have been in office for one year and then said, "I've discovered that the federal government has little jurisdiction over street crime in the cities, towns, and counties; and therefore it is a matter for the states to handle. Good luck!"
>
> We realized that having an impact nationwide between 1968 and 1972 was going to be hard to achieve, but to publicly disavow responsibility at the federal level and extend it to the states would have been perceived as a cop-out—and something that was directly inconsistent with what he had campaigned on.

[5] "Crime Control" memorandum.

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> We didn't have the luxury to do nothing or to conclude that because the problem was so complex and seemingly intransigent nothing should be done . . . [although] in effect we were leaving the actual police work to the local government . . ."

This was also John Ehrlichman's view. In a meeting in his office on the subject of drug abuse treatment, he told Krogh that although "most of the activities in this field *are* local—with the feds funding grantees—conceptually we should not stress that the federal government was shifting responsibility back to the states because the Administration was clearly identified with handling the problem. . . . The President was out in front on the issue, and . . . as a matter of policy, he should stay there." In any case, the issue of "shifting the burden" was settled by Nixon himself in May 1971, after an April meeting among Ehrlichman, Richardson, and others. Krogh's outline of that meeting notes: "Secretary Richardson recommends that the thrust of new initiatives be experimental, thereby shifting the burden of the problem to the states. Expectations are [thus] not raised that the federal government is undertaking a multi-year responsibility. Can the President afford politically to abdicate responsibility on this issue?" Ehrlichman's recommendation was "that our posture *not* be worded in a tone which suggests, 'It's the problem of state and local government.'" President Nixon wholeheartedly agreed with Ehrlichman, ending any further consideration of the "devolving of responsibility" strategy.

The use of the LEAA

One way of demonstrating the Administration's concern and perhaps making an impact on crime by 1972 was to channel additional resources to local police departments. The obvious instrument for accomplishing this purpose was the Law Enforcement Assistance Administration (LEAA), an appendage of the Justice Department set up in 1968 by the Johnson Administration to aid local law enforcement agencies. LEAA, however, gave the vast preponderance of its funds in "block grants" to the states, which then allocated the money among local agencies, and thus the Nixon Administration had little control over which police departments received funds—and for what purposes they were used. Since the block grants tended to filter down to cities controlled by Democrats—if only because most city governments are usually Democratic—the Domestic Council strategists noted that "there was profound GOP opposition [to] the theory

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of block grants" and that, moreover, the system "makes more difficult the coercing of the states into reordering their priorities to emphasize street crime."

With the twin objectives of reducing street crime and "maintain-[ing] the image of a massive Administration assault on crime," the Nixon Strategists recommended a change in "LEAA formulas to permit more funds invested in high-crime areas" and a campaign to focus publicity on Administration efforts. Yet their report concluded pessimistically that expanded LEAA grants would tend to induce "a bad reaction from GOP," and give credit for "more highly visible deterrence at local levels." The President also was concerned, according to Krogh, that LEAA grants would detract from "his direct responsibility, because then the money would go to state planning agencies from LEAA, [which] would then distribute it within the states . . ." Nevertheless, LEAA grants, especially discretionary ones, were expanded. Krogh explains:

> There was some concern that if you have an impact on the cities where street crime was most acute, you would have to be giving money to primarily Democratic politicians. But I think there was recognition that this was a cost that had to be borne.
>
> But whatever discretionary money there was . . . in many cases would come directly to the White House, and be addressed there by Mr. Ehrlichman, by my staff, and in some cases the President directly. . . . It's very hard to separate the political interest from the substantive interest; at times this leads you into dangerous waters. . . . In terms of developing [LEAA] programs, my office felt, first, yes, this is something that must be done as a policy proposition, but it is also something that must be done to make a political record in 1972.

To be sure, Presidential politics traditionally centers around actions intended to mobilize public support for the President, which includes distributing rewards to those who are politically helpful rather than to those who are politically damaging to the President. On the Domestic Council Krogh found that "the political dimensions . . . and the substantive issue were impossible to separate."

As a "case study in political muscle," Krogh described in considerable detail how funds were channelled to Mayor Rizzo in Philadelphia:

> Mayor Rizzo had been making overtures to the President . . . about his interest in supporting Mr. Nixon for re-election in 1972. The President was smitten with the idea of Rizzo supporting him and carrying the state of Pennsylvania. Mr. Ehrlichman instructed me in 1972 to do all that was necessary to get Rizzo's programs on narcotics and law enforcement on the line as soon as possible. I was told to make sure that

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checks for federal funds were transmitted to his office as fast as possible.

Jeffrey Donfeld, a staff assistant to Krogh then working in the Special Action Office for Drug Abuse Prevention in the White House, was immediately dispatched to Philadelphia, with his entire staff, to prepare application grants for a "Treatment Alternative to Street Crime" program—an LEAA-funded device for diverting heroin addicts with criminal records to city-administered treatment programs. (Many other cities, of course, applied for these funds and eventually launched programs.) Krogh continued:

> Donfeld was given a 72-hour deadline to prepare the application grant, have it sent to Washington, signed, and transmitted back to Philadelphia. While he was in Philadelphia, I received a call from Mr. Ehrlichman at Camp David, who asked me, prior to the deadline, whether the check . . . as I recall for one million dollars . . . had gone yet. . . . Mr. Ehrlichman said it was the President's decision that the check was to go out by the deadline and that there would be no excuses. Accordingly, the check was transmitted to Rizzo, and he was able to announce very shortly thereafter a greatly expanded mechanism in Philadelphia.

A few weeks later, Krogh paid a personal visit to Rizzo with Jerris Leonard, the Administrator of LEAA. On Ehrlichman's orders, Krogh had told Leonard that "the President felt that supporting Mr. Rizzo was a matter of first importance, that we knew that he had a severe law enforcement problem as all cities did have, and that he was to be provided the maximum support that LEAA could provide." Leonard also had instructions from his immediate superior, John Mitchell, to "provide whatever discretionary funding they could to Rizzo in his hour of need." At a press conference held immediately after the meeting, Krogh was bemused to hear "Leonard and Rizzo proclaiming the new cooperative venture which, at that point, had not been specifically agreed upon, but nevertheless structured the relationship for future funding."

Even though LEAA definitely seemed to have its uses—and abuses (it financed everything from motor scooters for local police and television programs to a $200,000 grant for Jerry Wilson to write on police matters after he retired as police chief of Washington, D.C.)—Nixon's strategists were unable to determine whether these federal grants would assist their "law and order" campaign. Krogh believed that LEAA provided a useful "structure" for directly communicating the Administration's policies and "messages" to cooperating police organizations, but he observed, "The tragic part of

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the three years in which I was involved with LEAA work was the inability, really, to determine the effectiveness of the money spent . . . on any sort of cost-benefit analysis."

In any case, as the 1972 election grew nearer, the Nixon strategists were more concerned with "visibility"—a concern noted with increasing frequency in the memoranda in the Krogh file—than with cost effectiveness; and, in this respect, LEAA grants seemed to focus more attention on the local efforts of the receivers than on their federal benefactors. To heighten the "visibility" of the Administration, the "law and order" strategies thus turned to more conventional tactics.

"Mafia" hunts

"Visibility" was understood by the Nixon White House to mean getting the President's efforts in the headlines. The conventional means for achieving such coverage of the crime issue was simply to make a series of spectacular arrests. In 1962, for example, Robert F. Kennedy dispatched 100 FBI agents (and a large number of sympathetic journalists) to Reading, Pennsylvania, to raid an otherwise quiet dice game. As Victor Navasky points out in his sympathetic but eminently fair account of the Justice Department under Kennedy,[6] this proved to be "a brilliant publicity coup—since it advertised the new Kennedy anti-crime legislation. . . ." For such raids, Attorney General Kennedy pioneered the development of "strike forces," or groups of federal agents detached from their normal duties and chain of command. These "strike forces" quite commonly were fed information obtained from concealed microphones installed through surreptitious entries (or break-ins) in the gamblers' homes and offices. Even though such illegally obtained information could not be used to prosecute criminals, the disclosures were "leaked" to magazines and newspapers to keep the campaign in the headlines.

When John Mitchell became Attorney General, the "strike forces" still existed (although they had become largely inactive under Ramsey Clark), and in 1970 Nixon strategists envisioned mobilizing them in the traditional way. The earlier quoted internal memorandum on "Crime Control" states:

> Organized crime is being attacked through 11 strike forces soon to be increased to 21 strike forces. . . . This program needs more publicity.

[6] Victor Navasky, *Kennedy Justice* (New York, Atheneum, 1970).

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> Have established National Council on Organized Crime to chart strategy. . . . Apprehension of top-level hoodlums involved in organized crime on regular basis to be considered.

But the situation had indeed changed since 1962. The only effective way the FBI had of developing evidence (or disclosures) on gamblers and racketeers was through electronic eavesdropping devices, which had to be illegally implanted through break-ins. J. Edgar Hoover, who had become embroiled in a damaging controversy when it was revealed in court cases that the FBI had employed such techniques on behalf of Attorney General Kennedy (who then denied specific knowledge of the break-ins), was understandably reluctant to employ such means for Mitchell's crusade. Moreover, in 1970 Mitchell himself was under a drumfire of attack in the press and the courts about the authorization of wiretaps, and this made disclosures of other electronic surveillance much more risky—at least as far as the FBI was concerned. A new crusade against Italian-American gamblers also presented a political problem of a different sort: An Italian Anti-Defamation League, with such notable sponsors as Frank Sinatra, was claiming, with some justification, that the use of terms like "Mafia," "Mafioso," and "Cosa Nostra" was creating the false impression that Italian-Americans were behind all organized crime in America. Mitchell acceded to these protests by prohibiting the Department of Justice from using Mafia-type epithets to describe organized crime. Under these conditions, there seemed little profit to be gained from the traditional "Mafia" hunt.

Drug busts

A standard variation on this theme was a round-up of narcotics violators. The "Crime Control" memorandum noted in 1970: "Drug law enforcement involving crackdowns on drug traffickers through mass arrests and international efforts to curtail flow of heroin are second most direct federal programs impacting crime. Effort to date, while widely disseminated through the media, has not convinced public of effectiveness of anti-drug drive." The strategy paper thus suggested exploring the "feasibility of mounting major operation with code name against heroin trafficking" intended to "create aura of massive attack on most feared narcotic."

The model for this proposed new "code-name" operation against heroin traffickers was "Operation Intercept" (later renamed "Operation Cooperation"), in which Customs and Bureau of Narcotics

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agents caused a massive traffic jam along the entire Mexican-American border for one week in 1969 by searching every car and individual attempting to cross it. Krogh recalls some of the unforeseen consequences of this operation:

> Operation Intercept was developed through the spring and early summer of 1969. It was leaked to the military in August that we were planning to shut down the border, which resulted in a number of U.S. sailors getting beaten up in Tijuana . . . a week before the President was to meet President Diaz at Friendship Dam; it was somewhat embarrassing at that point. Operation Intercept resulted in tying up traffic . . . and seizure of marijuana. In terms of heroin, nothing really was accomplished . . .

Operation Intercept did result, however, in massive favorable (as well as some unfavorable) publicity, which established the Administration's efforts against "drugs" in the public mind.

The launching of an election-year "Operation Heroin," though recommended in the memorandum, raised a thorny bureaucratic problem for Krogh. John Ingersoll, the Director of the Bureau of Narcotics and Dangerous Drugs, had deliberately shifted the focus of his agency's activities since 1969 from "street arrests" to disrupting "international systems" of narcotics traffic. He changed his main index of success from prosecutions to the hypothetical value of seized narcotics (which could easily be inflated to impressive billion-dollar statistics by applying a "street value" formula to the seizures). This new policy allowed Ingersoll to deploy agents overseas—where they could "cooperate" in (or at least claim credit for) foreign drug seizures—rather than put them on the streets of New York to do undercover work, where they were highly vulnerable to being corrupted (as was the case on a large scale in 1968). Drug arrests had therefore continued to decline, to the concern of the strategists of the "law and order" campaign.

When Krogh attempted to persuade Ingersoll to resume making street arrests in the United States on a larger scale, Ingersoll politely declined. Even the citing of polls showing that the Nixon Administration's efforts in drug enforcement were not impressing the public failed to budge him. Moreover, Ingersoll had the confidence of John Mitchell (who apparently was more willing to supply the crime control effort with strong "words" than with "deeds"—at least where his own organizational loyalties were concerned). Eventually, the White House managed to bypass Ingersoll, the Bureau of Narcotics, and all other established law enforcement institutions by setting up in the White House an Office of Drug Abuse Law Enforcement,

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which coordinated a highly publicized program of heroin arrests before the election.

This "crackdown," in conjunction with a drastic curtailment of the supply of heroin from abroad (the President had elevated heroin to a "national security" issue to achieve this end[7]), raised another complex issue: If the government effectively jacked up the price of heroin on the street through these actions, the level of crime might tend to *increase*, rather than decrease, under the then prevailing theory that heroin addicts were compelled to commit crimes in order to pay for the drug on which they were inexorably dependent. Thus, while "Operation Heroin" could be expected to produce favorable "visibility" for the President, it was not expected to diminish crime statistics. Krogh observed in retrospect: "You had to provide an alternative to the heroin addict whose price for the substance had increased; otherwise it could lead to an increase in crime, because of the higher cost of obtaining the substance." It soon became clear that other, less conventional means would have to be employed.

Enter methadone

The distribution of methadone, a highly addictive synthetic opiate which can be substituted for heroin, was no doubt the most unorthodox solution to the crime problem that the Nixon strategists contemplated. The issue was clearly defined in a 1970 Domestic Council Summary Option Paper on drugs, which stated:

> Mayor Lindsay has recently announced a $4.4 million methadone program in New York City. . . . If methadone does prove to be successful in New York on a large scale, Lindsay can claim credit for taking a bold step while the Administration remained cautiously skeptical.
>
> Is the goal of decreased crime more important than the inevitable outcry from some people in the medical community, liberals, and black militants that the Administration is subjugating the black addicts to the white man's opiate?
>
> In 1972 citizens will be looking at crime statistics across the nation in order to see whether expectations raised in 1968 have been met. *The federal government has only one economical and effective technique for reducing crime in the streets—methadone maintenance.*

The "architect of the methadone policy" was, according to Krogh, Jeffrey Donfeld. Donfeld, who had been President of the Student Union at UCLA, went on to law school at Berkeley, and then in

[7] For a fuller discussion of the foreign policy of heroin (1969-1974), see my "War of the Poppies," *Esquire* (December 1974).

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1967 interned with the New York law firm of Richard Nixon and John Mitchell. After impressing Nixon with sharp questions about the "domino theory" in Vietnam, and working in California Republican politics, Donfeld, at the age of 25, was asked to join the Administration as a staff assistant in the field of drug control. Through working on such projects as inviting disc jockeys to White House conferences, injecting "drug themes" into television programs, and arranging other drug propaganda, he acquired the belief that "all government is 75 per cent PR."

In 1969, however, working under Krogh, Donfeld became impressed with the work done by the Narcotics Treatment Administration (NTA) in Washington, D.C., and foresaw the political potential of treatment. In June 1970, after a whirlwind tour of treatment programs in New York and Chicago, he composed a 16-page memorandum entitled "Different Strokes for Different Folks." Despite acknowledging that "one cannot evaluate the efficiency of programs based on the rhetoric of program protagonists" and that "most programs visited did not have, or would not provide . . . statistics," he argued that "drug rehabilitation is a virgin yet fertile area for social and political gain." In recommending a national program, Donfeld singled out Dr. Jerome Jaffe, then director of the Illinois State Rehabilitation Program, as the "most impressive man" administering treatment programs. Under the heading "Political Considerations," he noted that Jaffe "cautions that the political price of methadone will be escalated by the Blacks who will argue that you are trying to addict them, i.e., 'If it were middle-America that was hooked on heroin, you'd have group therapy.'" To avoid this problem, Donfeld continued, "Jaffe sells his mixed-modality approach [i.e., a system in which the patient is offered either methadone or drug-free alternatives], though he believes that 90 per cent of the addicts will require methadone. The balanced program is political protection."

One month later, in designing a "policy paper" on the subject, Donfeld argued that "it goes without saying that the primary goal [of treatment] should be to create law-abiding citizens and thereby reduce crime." Given this objective, he concluded, "methadone maintenance is the modality which can best fit our needs," but also recommended disguising a policy of maintaining heroin addicts on a synthetic drug by using "multi-modality rhetoric":

> I believe that there are a number of sound reasons for describing any new drug rehabilitative initiative of the Nixon Administration in terms of a multi-modality approach rather than a methadone maintenance approach. . . .

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Implicit in the multi-modality approach is the notion that we are still searching for effective techniques to rehabilitate the drug abuser. If therefore there is not a perceptible decrease in the rate of crime once this rehabilitation program is introduced, we can always claim that the effective modality has not been found yet.

Overcoming the opposition

A few months later, in November 1970, Dr. Jaffe, a nationally respected psychiatrist and pharmacologist, was recruited to organize a "drug review" for Krogh and the Domestic Council. At the same time, on John Ehrlichman's orders, an "in-house" study of the drug issue was prepared by the National Institute of Mental Health (NIMH) and other government agencies with an interest in the subject. Then Donfeld, in his role as analyst of both reports, prepared a central "Domestic Council Staff Report" which undermined or discredited whatever reservations government agencies had expressed about the massive methadone scheme. For example, the Staff Report cast doubt on the objectivity of NIMH (which argued that in dispensing methadone "government is sanctioning one addiction in order to reduce the burden on society of heroin addiction") because the agency was suspected of being "professionally oriented around psychotherapy," and "it would be an overt admission that the profession of psychiatry has failed to deal with heroin addiction if the National Institute of Mental Health endorsed methadone chemotherapy." (This accusation was certainly true in part.) Similarly, the Food and Drug Administration (FDA), which objected because "the long-term physiological effects of methadone are not known," was attacked for its bureaucratic inertia. The Staff Report commented: "FDA bureaucrats have not made it clear to researchers precisely what data will suffice. The researchers [in then existing programs], who are arrogant egocentrics, are incensed at anyone who questions their research for methadone. . . . Hence, a standstill." The failure of either the government or researchers in private programs to produce satisfactory data on the effects of methadone on the health of long-term users was thus dismissed as bureaucratic intransigence.

Finally, the argument of the Bureau of Narcotics that methadone would inevitably be diverted into the "black market," and thus lead to an entirely new drug problem, was rebutted: "Though non-addicts may die from methadone overdoses, one must question whether the costs to society are greater from the certain deaths from heroin and

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attendant crime or from the potential deaths of innocent people." Moreover, the Staff Report argued that an illicit methadone market might be advantageous in terms of reducing crime: "Even if heroin addicts were to obtain supplies of methadone [illegally], society is not hurt in a direct way because methadone will help to sustain an addict until he can get his next heroin fix: The addict will have less compulsion to commit crimes to obtain money to buy that fix."[8] In other words, the leakage of methadone from treatment programs to the black market would undercut the price of heroin, and thereby presumably diminish the addict's level of criminal activity. Although the Domestic Council had not yet obtained any independent data on, or evaluation of, methadone, the Staff Report clearly advanced it as the only practical means for reducing crime statistics for the 1972 election. As it happened, there was a great deal of support for the methadone strategy among liberal academics and liberal politicians (e.g., Mayor Lindsay), so the Domestic Council had plenty of support for believing that, politics aside, it was the most sensible approach.

One important objection to the massive distribution of methadone still remained: The AMA had expressed some doubts as to its medical safety and propriety. Therefore Donfeld met on February 4, 1971, with Raymond Cotton, whom he described as "second-in-command of the American Medical Association's Congressional Liaison Office here in Washington." Donfeld reported on this meeting to Krogh:

> The gist of his conversation was that in view of the fact that in the last election the AMA gave 85 per cent of its money to the Republican Party and 15 per cent of its money to Democrats who usually support the President on key issues, he felt that there was no reason for the AMA ever to be in a position to oppose the substantive proposals of the Administration in Congress. He made it quite clear that he wanted to be in a position to support the Administration on any issue on which we might want AMA assistance.

Donfeld responded by bringing up the methadone "problem":

> He said that a committee of AMA was currently preparing a position on methadone. I told him that it would meet with great favor at the White House if the position paper concluded that initial results in methadone projects seemed to indicate that it is efficacious and safe

[8] The NTA program in Washington, D.C., used a "filling station" concept along the lines of this logic to dispense as much methadone as it could. For an evaluation of these early methadone programs, see my "Methadone: The Forlorn Hope," *Public Interest*, No. 36 (Summer 1974).

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for the treatment of heroin addiction. He got the point and said that he would keep in touch with me on the progress of the document. . . .

In March, Donfeld and Krogh proceeded to draw up a "Domestic Council Decision Paper," which noted that "experts do not agree on the degree of effectiveness, safety, and long-term value of methadone maintenance programs," but advanced the argument that "mounting a national program . . . may significantly reduce arrest and crime rates . . . (data are suggestive though not conclusive), with large economic benefits as a consequence." This position was accepted by John Ehrlichman and the Domestic Council.

Selling the President

Although the whirlwind of White House staff analyses and decision papers overwhelmed the muted resistance of "bureaucrats" in NIMH, FDA, and BNDD to methadone, there still remained the problem of convincing the Attorney General, the Secretary of HEW, and the President of the merits of the federal government's distributing a highly addictive drug. Krogh recounts the problem:

> With the President as well as Mr. Mitchell and Mr. Richardson there was a basic hostility to developing this kind of [methadone] program. . . . The President in fact expressed himself that methadone was, if anything, more dangerous than heroin itself. . . . There was at first quite a strong feeling that the government should not be funding drug addiction. . . . Why should we be actually funding programs that addict people to methadone if it is nothing more than synthetic opium? . . . It took some time to persuade both Mr. Mitchell and John Ehrlichman . . . that it was better to have a person on methadone maintenance where he was identified, where he could be counselled, where he could hopefully get a job, than to have him on the streets using heroin. . . .
>
> I think there was a feeling that it was moving too fast and more time was necessary to study the effectiveness of it. Nevertheless, we became persuaded, based upon expert opinions from Dr. Jaffe and others, that it was a doable program, that it could be on line within a year, and that some very direct results could be presented to the President in time for the 1972 election.

Indeed, in response to the March "Decision Paper," both John Mitchell and Elliot Richardson reacted "negatively" to the plan for embarking on a national methadone program. Mitchell recommended instead a small pilot project monitored by "a prestigious, independent committee with a staff of highly qualified experts who have full access to the data generated by methadone and possibly other treatment programs."[9] Secretary Richardson expressed his

[9] Memorandum to John Ehrlichman from the Attorney General, March 30, 1971.

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opposition even more forcefully and eloquently in a memorandum (routed via Ehrlichman) intended for the President:

> All the professional agencies involved (NIMH, FDA, BNDD) are extremely wary of a greatly expanded federal emphasis on methadone maintenance. Their fears of an expansion of federal activities in this area must be treated with great respect, particularly given the conjunction of these views coming from greatly different programmatic interests.
>
> My own view is that embarking on a national program of methadone maintenance may court potential disaster. We would be forced into the posture of pushing this program without the support of a generally accepted consensus of scientific knowledge and in the face of the judgment of our professional advisors.[10]

The President himself may not have been fully apprised of the methadone controversy: A memorandum recounts his meeting with Dr. Jaffe in June 1971:

> The President asked Dr. Jaffe what his bag was in terms of treatment. He asked if Jaffe used psychiatry. Dr. Jaffe replied, "Occasionally."
>
> The President asked Dr. Jaffe how he felt about methadone and wanted to know if methadone was worse than heroin. . . . Dr. Jaffe outlined his program, which includes therapeutic communities and methadone detoxification as well as methadone maintenance. . . . In the Illinois program, there is a 40 per cent decrease in crime. . . ."

The resistance was not sufficient to stop the methadone project. On April 28th, 1971, Ehrlichman arranged a high-level meeting among himself, Mitchell, Richardson, Krogh, and their respective staff men, to resolve the drug issue. Before the meeting, Krogh personally met with Mitchell and "primed" him on the political importance of launching the methadone program in time for the election; the Attorney General reluctantly agreed "not to oppose." Throughout the meeting, however, Richardson counselled against anything more than "a careful pilot study," and Mitchell assured him that methadone was "not the answer . . . but only an interim measure."

When the matter was presented to the President for a decision one month later, the doubts and concerns of his chief cabinet officers were conveniently glossed over. Rather than being informed that Richardson feared methadone might be a "potential disaster," the President was given the following account:

> Although controversial on moral, social, and medical grounds, and although not the answer to heroin addiction, methadone is the most ef-

[10] Memorandum for the President from the Secretary of Health, Education and Welfare, subject: "Domestic Council Decision Paper on Narcotic Addiction and Drug Abuse," March 19, 1971.

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fective technique now available for reducing heroin and criminal recidivism and increasing the employment of drug-dependent persons. . . . It is anticipated that methadone will be deemed to be a safe and efficacious treatment.

The President, according to Krogh, was particularly worried at that time by the spectre of "hundreds of thousands of heroin addicts returning from the wars in Vietnam," and he quickly approved the recommendation that "methadone be considered the lead treatment methodology in a multi-treatment program." Whether he understood the full ramifications of methadone maintenance, or simply approved it as an election-year expedient (as it was "sold" to Mitchell), the President thus set in motion one of the most unorthodox programs ever initiated by government—the financing of a national narcotics distribution intended to replace a dangerous form of drug addiction by a putatively benign one. One June 17, 1971, less than a year after he was originally contacted by young Donfeld, Jerome Jaffe was appointed director—with Donfeld as associate director—of the Special Action Office for Drug Abuse Prevention, a newly created agency of the White House empowered to manage, and to channel hundreds of millions of federal dollars into, drug treatment programs.

A dubious victory

Overcoming opposition from bureaucrats and Cabinet officers, the White House staff had succeeded by 1973 in funding some 450 methadone programs which distributed more than seven and a half million dosages of the synthetic narcotic annually. Although a radical change in government policy from narcotic suppression to narcotic distribution (or transference) had been almost completely achieved by election time, the White House strategists were unable to persuade President Nixon to publicly identify himself with methadone "treatment." Donfeld prepared, he recalled, "dozens of scenarios in which the President would visit a treatment center. . . ." But all were peremptorily rejected. In June 1972, while the President and his party were flying in a helicopter from the Wall Street heliopad to Kennedy airport, Krogh personally broached the subject with the President. Pointing towards Queens (in New York) the President replied, "The people down there could care less about treatment or education. All they want to do is lock the folks up involved with drugs . . . just lock them up." Nevertheless, methadone did become more freely available and it did tend—in the opinion of many ob-

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servers—to fulfill Secretary Richardson's concern about a "potential disaster."

The White House staff also succeeded in bypassing reluctant officials in the established law enforcement agencies and dramatically raising the number and visibility of narcotic arrests before the 1972 election. The strike force commanded by the Office of Drug Abuse Law Enforcement became something of an embarrassment for the White House several months later when they began to raid wrong addresses, without either warrants or legal justification, in Winthrop, Massachusetts, and Collinsville, Illinois; in July 1973 this ad hoc "office" was quietly abolished.

The White House also managed to channel over $3 billion to police agencies throughout the country through LEAA. However, this massive infusion defied any sort of systematic evaluation because, as a report from the Comptroller General to Congress explained, "no standard or criteria had been established regarding success rates, . . . adequate and comparable data was not maintained by similar projects," and the attempts at evaluation "used different techniques and different information sources." [11] Attorney General Saxbe somewhat less generously concluded in 1975 that the entire $3.4 billion program had been a "dismal failure."

Ironically, and to the surprise of even some of the "law and order" strategists, crime statistics measured by the FBI index actually declined in 1972. The election-year decline, however, defied explanation, as the statistics immediately rose again in 1973. Moreover, cities which LEAA had specifically selected as "high impact areas," such as St. Louis, and poured funds into, did not necessarily experience a decline in crime statistics. Indeed, the pattern was quite mixed and robberies and burglaries in a majority of the 29 largest metropolitan areas actually increased in 1972.[12] The most dramatic declines came in two cities—Washington, D.C., and New York City. Donald Santarelli, who became director of LEAA after the election, said that the lower rate of crime in the District of Columbia in 1972

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[11] *Comptroller General Report to Congress: Difficulties of Assessing Results of Law Enforcement Assistance Administration Projects to Reduce Crime,* No. B17017 (March 19, 1974), p. 54.

[12] In the 29 largest metropolitan districts, decreases in both robberies and burglaries occurred in New York, Los Angeles, San Francisco, Philadelphia, Detroit, Buffalo, Indianapolis, Kansas City, Miami, New Orleans, Newark, and Seattle. Increases in one or both of the same categories occurred in St. Louis, Dallas-Fort Worth, Chicago, Baltimore, Orange County (California), Atlanta, Boston, Cincinnati, Cleveland, Denver, Houston, Milwaukee, Minneapolis-St. Paul, Paterson-Passaic, Pittsburgh, and Birmingham.

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could be accounted for by a greatly expanded criminal justice system which was able to handle 150 per cent more indictments in 1972, and therefore "temporarily reduced the number of criminals on the street." Since "nothing was done to reform the correction system," Santarelli continued, "these criminals were returned to the street in 1973"; hence the higher crime rate. Whether or not this was the main reason for the decrease in Washington, it seems quite likely that the 1972 decline elsewhere was brought about by special circumstances that did not exist in the following year.

In retrospect

Despite four years of planning by the White House strategists, and some stunning tactical victories over the bureaucracy, the "law and order" issue more or less withered away by election time.[13] After the summer of 1971, President Nixon concentrated his "focus" on the war in Vietnam, and his wrath on dissidents who attempted to disrupt his foreign policy—at least, that was what Krogh, and others on his staff, sensed. In fact, when Krogh stopped in San Clemente on his way back from Vietnam in July 1971 (where he and Jaffe had examined the "heroin problem"), Ehrlichman called him aside and said, "the President has a project for you." The "project" concerned the "leak" of the Pentagon Papers to the *New York Times,* and led in the next few weeks to the formation of the "Special Investigations Unit," or "Plumbers," and ultimately to breaking into the office of Daniel Ellsberg's psychiatrist in Beverly Hills. In this atmosphere of heightened tensions over the Administration's policy towards the Vietnam War (and domestic protestors) the issue of repression of street crime was subtly transformed by critics of the Administration to one of political repression, in which the "hardline" image projected around John Mitchell became a much less valuable political asset, if not a detriment. And in early 1972, Mitchell resigned to run the 1972 political campaign (with all the subsequent problems that involved), which signified that "law and order" would not receive the same degree of attention from the President. In any case, as the election approached, although a series of dramatic drug arrests and other publicity devices were planned to gain Presidential visibility, the economic issue displaced the crime issue as the "number one" political concern.

[13] For example, in Theodore H. White's account of the campaign no more than an echo of the 1968 "law and order" battle cry can be found.

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In retrospect the "law and order" campaign seemed to have had a much more marked effect on public opinion than on crime in America. It etched on the public consciousness the image of an unmerciful "law and order" administration (later turned by political critics into a Frankenstein's monster of repression). The campaign of 1972 began with the same foreknowledge that the federal government lacked the power significantly to affect unorganized crime, and it ended with the recognition that at best the Administration could achieve "visibility" for its efforts through symbolic action, such as Operation Intercept, which had been carefully tuned to the resonance of the media.

The young White House staffers took the view that, as Krogh put it, "we can't sit around and do nothing." Although Elliot Richardson railed time and again against this logic in memoranda, he was unsuccessful in curbing this zeal for action. More experienced civil servants were thus undercut by the ability of the Domestic Council staff to structure decisions and evade resistance through "option papers." Yet maneuvers and rhetoric notwithstanding, the war against crime could not be so easily prosecuted at the federal level, either in fact or in appearance.

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The Riddle of the Middle Class

JAMES Q. WILSON

WHATEVER else the United States may be, it is surely a middle-class society with a government devised, and to a large extent still operated, by rather sober middle-class persons. Tocqueville believed that the middle class—those persons "who have a competency, alike removed from opulence and from penury"—would grow in numbers and, to the extent they gained control of government, "would certainly not be lavish of taxes, because nothing is so onerous as a large impost levied upon a small income." The government of the middle classes, he concluded, would be the most economical —he would not say the most enlightened, certainly not the most generous—of all free governments.

Over a hundred years later, Aaron Director, before his death the editor of the *Journal of Law and Economics*, sought to explain why, contrary to Tocqueville, American government, though middle-class, was hardly frugal. As later stated and labeled by George Stigler, "Director's Law of Public Income Redistribution" held that any government will redistribute resources to the benefit of whatever group or class could take command of its machinery; in the United States this was the middle class; hence, in the United States "public expenditures are made for the primary benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and the rich."

Professor Stigler, on behalf of Director, offered an impressive list of examples of government-supplied subsidies to the middle class. Education in the state universities is principally enjoyed by the children of the middle class but paid for by taxes on all, and thus almost certainly involves a money transfer from the less-well-off to the better-off. Farm subsidies and crop controls have helped the larger, not the smaller, farmer. Social security programs benefit disproportionately those who are more regularly employed and the cost weighs more heavily on those who earn little. Urban renewal reduces the supply, in many cities, of low-cost housing and builds, at a subsidy, housing for the middle classes. Institutions exempt from taxes are medical, cultural, religious, and educational organizations enjoyed primarily by the middle classes.

It is not difficult to add to this list. The tax deductions allowed

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for property taxes and for interest payments on mortgages benefit primarily home owners. Much of the anti-poverty legislation of the 1960's bid up the salaries of the social workers and community organizers without placing much money in the hands of the poor, just as federal requirements in the 1950's for urban planning bid up the salaries of planners without producing many (useful) plans. Until they were finally ended, college student deferments allowed middle-class boys more easily than poor ones to escape the rigors of military service and the risks of combat in Vietnam.

If Director's Law is true, then the middle classes should be happy with, or at least have great confidence in and support for, popular government. But they do not. For the last decade or so, there has been a steady erosion of public confidence in government. In 1964, only 22 per cent of the voters felt that "government can be trusted only some or none of the time," but by 1970 that figure had doubled to 44 per cent. In 1964, 30 per cent believed that government works for the benefit of "a few big interests"; in 1970, 55 per cent felt that way.

Note that the decline in popular trust in government set in well before the Watergate scandal—though, as a 1973 poll of the Louis Harris organization makes clear, Watergate exacerbated that decline. Note also that the decline in trust in government that occurred between 1964 and 1970 was *not* accompanied by any growth in the belief that politicians are crooked; it was the *behavior* of government, not the motives of its officials, that was the object of increased public cynicism. During that period the proportion of people believing that "quite a few" of the people running government are "a little crooked" increased only slightly, from 28 per cent in 1964 to 31 per cent in 1970.

This decline in political trust has occurred, as shown by the studies of Arthur H. Miller of the University of Michigan, in virtually every strata of American society—rich and poor, black and white, male and female, young and old. Given the issues of the 1960's, it is not surprising that some of these groups became disaffected: blacks resentful of the slowness of racial integration, doves enraged by our involvement in Vietnam, and the conspiracy-minded who saw in the assassinations of John and Robert Kennedy ominous plots rather than deranged acts.

What is harder to explain in the Miller data is the dramatic decline in political trust among middle-class whites: Those earning between $4,000 and $15,000 a year reported from 1958 to 1972 a greater loss of political trust than those earning less than $4,000 or more than $15,000. Middle-income blacks became more distrustful of government than lower-income ones. Farmers, despite the subsidies, are the most distrustful occupational group. Finally, this change was not the result of the much touted "alienation" of youth. In every year since 1958, persons over 50 years of age have been more estranged from government than persons under 30.

The paradox of declining middle-class confidence in a regime that

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creates and maintains benefits for the middle class requires explanation, and not simply as an intellectual exercise. Governments have expropriated the rich and survived; governments have ignored the protests and desires of the poor and survived; but few governments have been able for long to risk the alienation of the middle classes, and those that appear to have succeeded—revolutionary regimes in Russia and China, for example—have in fact created a new and massive middle class to replace an old, small, and largely ineffectual one.

One reason may be the rise of problems deeply affecting the middle class which the government would like to solve but cannot. Crime is the leading example. If the President and the Congress knew some way to reduce dramatically the robbery rate, no doubt they would adopt it. They are not convinced that they know such methods, and therefore they must be content with tough speeches and expensive palliatives, such as the Law Enforcement Assistance program, which has not reduced crime (but which has, following Director's Law, bid up the salaries of criminal justice planners and consultants). Other issues related to public order, such as rioting and unattractive lifestyles, have found the government unable to act in ways the middle class approved. (Not *all* governments were unable: Mayor Daley's police attacked the demonstrators at the 1968 Democratic convention to the general approval of the middle class, but that was an exception).

Another reason may be the rise, not of new issues, but of the power of institutions over which the middle class has no control. The growing significance of the activist courts is a major example. Now, of course judges are themselves "middle-class," and as an occupational group judges are highly respected by the middle class as a whole. But judges are not directly subject to popular control and therefore they are free to take their cues, not from the anticipated reactions of the voters, but from the known opinions of other judges, law professors, and various "experts." Ward Elliott, in his fascinating and provocative book *The Rise of Guardian Democracy*, has explained why Tocqueville was correct in thinking the bench and bar were the locus of the only American aristocracy but why he was wrong in supposing that this "aristocracy" would always exercise a predominantly conservative influence. Court-ordered racial integration in the public schools is seen by many citizens as wrong, court-ordered busing to achieve that integration is seen by the vast majority as wrong, but whereas low-income whites might consider it but another example of how "the system" works to their disadvantage, middle-class whites often regard it as an unprecedented betrayal of their values and interests.

The Miller data show that the racial issue has so polarized the nation as to cause an increase in "political cynicism" (actually, political distrust) among *both* proponents *and* opponents of integration. Blacks, who in 1966 were more trusting of the government than whites, were by 1970 less so; the decline in their trust was thus somewhat greater than, but in general no different from, the decline

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among whites opposing school and neighborhood integration. A similar change was noted among persons who had extreme views on Vietnam (ultra-dove or ultra-hawk) or on the "social issue" (campus rioting, rights of criminals), leading Miller to conclude that there was during the 1960's an increase in the proportion of both "cynics of the left" and "cynics of the right."

THIS suggests an even larger point: The 1960's witnessed the rise of issues (race, war, crime, campus disorders) that not only seemed beyond the government's capacity to manage, but that split the middle classes and that found larger proportions of the electorate favoring extreme rather than centrist solutions to these problems. Critics of Miller's findings, such as Jack Citrin of the University of California at Berkeley, argue that this widespread distrust in government, though it is based on political attitudes and not on economic status, reflects discontent with actual politicians—notably the last three Presidents—and not any fundamental withdrawal of support from the government system itself. Only time will tell who is right.

The economic problems that have afflicted the nation in recent years have surely intensified the popular feeling that the government is not competent or worthy of trust, though I am not yet aware of any poll that has been conducted to investigate that relationship. But a careful study should show that inflation, in particular, has exposed in the most painful way the dilemma of the middle class. The constitutional system created by James Madison and the other Founding Fathers has worked brilliantly to insure that every interest would be accommodated but none would be allowed to dominate. Every occupational, regional, commercial, and educational component of the middle class would be benefited by policies designed to satisfy its immediate and urgent needs, but often in ways, not realized at the time, that would work to the disadvantage of other components of that class or of the middle class generally.

Is there a farm problem? Control and subsidize production—only later do we discover that food prices are thereby inflated. Do the elderly need hospital care? Every humane impulse urges us to supply that care at no charge—only later do we discover the inflationary pressures this creates on the cost of hospital and medical services for everyone. Are short-haul railroads charging monopoly prices? Regulate them—only after the advent of trucking do we discover that the regulation operates to maintain the cost of transportation at an artificially high level.

In short, *the cumulative result of the manifold government decisions made on behalf of factions within the middle class has been a set of policies which now disadvantages the middle class and which it considers to be the product of "big interests."* The contribution of government itself to the current inflation is hard to measure but no doubt substantial; that contribution arises, not from government's having neglected the interests of its citizens, but from its having attempted to serve them.

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THERE is nothing uniquely American in this process—almost every government accumulates policies the total cost and underlying irrationality of which only slowly become apparent. That is to say, almost every government responds to the demands of the middle classes. Some have responded more rapidly and fully than ours, and the bitter but probably ineffectual reaction against that process is now evident in Denmark and Sweden.

Madison, knowing that the American government must cope with factions not only between classes but within the middle class, helped design a Constitution that would slow the rate of political change in order to insure that such policies as were adopted would have the widest possible support—that they would be endorsed by a coalition of the majority appealing to some conception of the public interest. The price we pay for such a system of government is not only that, as the Left complains, social change is slowed, but also that, as the Right bemoans, policies once enacted can rarely be abolished. A weak central government can be moved by a coalition of the majority, though with difficulty; a central government made strong by the successes of previous coalitions that have had their policies adopted can with greater ease ignore new coalitions and act unilaterally; and in the long run the very concept of a "middle class" loses almost all political meaning, as government programs proliferate to serve the interests of various special components of that class (to serve, that is, factions) and thereby to define out of existence any larger conception of society.

Above all, the reason why Tocqueville was wrong to think the middle class would restrain government and why Director's Law does not prepare us for the disenchantment of that class with government is fully stated by Tocqueville himself: The animating spirit of the American democracy is the desire for equality. It is the middle class—not the poor—that historically has carried forward this desire. As the middle class grows in size, inequality lessens, but as inequality lessens, the demand that it disappear altogether grows louder. Vast inequalities and great social ills are tolerated, but as privilege becomes less, and problems become fewer, the effort to abolish the last trace of privilege and to solve the last remaining (and therefore most intractable) problem intensifies. But by this time, the government itself has become a source of privilege and a creator of many problems, and thus to meet these new demands old gains would have to be abandoned—a prospect which no one relishes. In a middle-class democracy, the middle classes will inevitably be frustrated.

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Who Wants Higher Education, Even When It's Free?

NATHAN GLAZER

For the past decade, analysts of higher education have foreseen a time coming when almost every high school graduate would expect to enter an institution of higher education. The trends were clear: Just as high school education at the turn of the century was something for a small but increasing part of the youth population, so was higher education 40 years later. Getting everyone to graduate from high school (the high-school "drop-out" problem) was a leading concern of educational and other policy makers in the 1950's and early 1960's, and the effort to get almost every high school graduate at least to enter college seemed to be a leading concern of educational and other policy makers in the later 1960's. California had led the way, but the rest of the country was not far behind.

The United States was not alone. International social policy is now a reality, and the Organisation for Economic Co-operation and Development in Paris, the organization to which all the developed nations of the free world belong, not only monitors the progress of these nations on internationally uniform scales, but proposes policies that all should follow. And all were following, or attempting to, in various degrees, the "California model," by expanding higher education facilities so that no one might be excluded owing to lack of either physical facilities and faculty or personal finances.

Of course, it was only in America that an additional bar to entering institutions of higher education was lifted—educational achievement. In the California model, every high school graduate was able to enter some institution, whether community college, state college, or university, and could transfer from one level to another on the basis of modest grades. This, combined with the fact that just about everyone was now expected to graduate from high school, meant that in theory (and in good measure, in reality) the University of California, one of the most distinguished in the world, was accessible to every young person in the state regardless of high school grades. The rest of the United States sought to catch up with California, and the rest of the developed world with the United States.

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It was hard to see what would stop the drive to universal higher education. Equal treatment demanded it; the lack of a college degree was considered in many quarters an unfair bar to better jobs; college offered a respite for two or four or more years from the requirements of work (and why should only some get it?); it was claimed that it produced better workers for the economy and better citizens for the polity; and while it was indeed very expensive, so were health care, subsidized housing, and other good things. No one could see any limit but the simple crunch on resources that could stop the steady progress to higher education for all.

Not that everyone looked forward to this outcome. There were those who were concerned for the quality of higher education: Would it not deteriorate if intellectual abilities became a less important element in admissions? Did not the undertaking of a higher education require some level of abilities—in reading, writing, figuring, comprehending abstract concepts—that not everyone could possibly have? And was it really good that everyone should receive higher education? Education had served as a selection device for occupations. Assuming the occupations that had ordinarily been reserved for the college graduate would not expand to include almost all jobs (and how could they?), what new selection devices could be devised, and would they be better or worse for society? And if one were concerned about high culture and intellectual achievement, would not the inevitable effect of accommodating all—the dropping of requirements in mathematics and foreign languages, the introduction of remedial reading and writing courses into institutions of higher education, etc.—be a decline in standards? Indeed, the term "higher education" itself became something of an embarrassment, since so much of it was becoming devoted to simple reading, writing, and figuring skills, and a new term, "post-secondary education," has come into vogue, partly for this reason.

WELL, it is always an error to extrapolate any social trend to its limit: As a rule, something always happens, though we can't tell what it will be. About 15 years ago Derek da Solla Price was demonstrating that extrapolating trends that had continued in science for some time must lead to such outlandish results as everyone in society becoming a scientific researcher, or the requirement—for the accommodation of new journals—of adding extensions the size of the Pentagon to libraries every year (one can always get an outlandish result with a rising trend by extending it a few more years). No one, 10 years ago, could imagine what would happen to stop these trends. What happened was that expenditures for scientific research and training stopped rising in the later 1960's.

Similarly, something has happened to our expectation of college education for all, but it is not basically a crunch on financial resources. It seems that many young persons of college age simply don't want to go. Many colleges now have space, but the students who were expected to fill them have not shown up. Projections for the future are being revised downwards, not only on the basis of

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demographic trends, but because the taste for higher education, it appears, is not universal.

That, at any rate, is one interpretation of an unexpected phenomenon that has now appeared in a number of advanced nations which have been expanding higher education in the expectation that more and more young people would want it. The percentage of young men going on to college in the United States peaked in 1969; since then it has been declining, and not inconsiderably, though the enrollment of blacks and females continued to rise. (The Census publishes a tabulation of 20 and 21-year-old high school graduates who have completed at least one year of college: It reached 58.7 per cent in 1970, but had dropped to 49.5 per cent in 1974.) There seemed to be two good explanations for these trends: The threat of the draft receded and so young men were no longer forced into higher education to avoid Vietnam; and opportunities for college-educated blacks and women were rising. As in the case of the outbreak of student disturbances in late 1964 and early 1965, we began with "American" explanations: Vietnam, and the impact of the civil rights movement. When student unrest broke out in other nations unafflicted with Vietnam and without major civil rights problems, new explanations became necessary. A common phenomenon needs a common explanation, rather than a distinctive explanation in every case of its appearance. So, too, with the dropping off of enrollments in higher education. It can't be caused only by the ending of the draft. It has now been reported in Canada, Sweden, and Britain, as well as in the United States.

For Britain at least, we have an interesting interpretation by Gareth Williams (*New Society*, November 21, 1974). In England, Scotland, and Wales, entry into higher education requires two or more "A-level" passes in examinations taken at the end of secondary education. Since tuition and living expenses for higher education are now covered for almost all, on the basis of need, one would expect that the great majority who can go on to higher education would do so. Between 1967 and 1969, about 69 per cent did. Then the percentage began to drop, down to 61.8 per cent in 1973.

Perhaps this has affected only the less qualified students? Not so: If we consider the students with *more* than two A-level passes, the percentage going on to higher education also peaked in 1968 (87.1) and was down (to 80.2) in 1973. Williams suggests that there has been a change in the balance of costs and benefits of higher education. Thus, since 1962, when maintenance grants were extended as a matter of right to all students with two or more A-level passes, grants have increased, but much less than the rise in retail prices. So by 1972-73, the "real" standard of living of students had declined 15 per cent. On the other hand, wages for young people starting work, who had not gone to college, increased even more than the retail price index. Williams reports that in 1962 the average university student's grant was equal to the wages of young workers; by 1973 it was hardly more than half as much. (It is a nice question, from the point of view of equity, whether the supported college stu-

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dent should get as much as a working contemporary, or more, or less—but what he gets will clearly affect what he does.)

Not only had the costs of a university education, comparatively speaking, gone up; benefits had (comparatively) gone down. Thus the gap between starting salaries of Leeds University graduates and the wages of manual workers was widest in 1968, and has narrowed since then. Finally, Williams points out that it is likely that the "consumption benefits" of higher education have declined as the number of students has increased. Certainly this is hard to measure, but very likely life is less pleasant for students—in terms of food, quality of rooms and furniture, service, comfort of surroundings—than it was 10 years ago. Does this play a role in choice too? Aesthetic amenities, too, may have declined—the quality of grounds-keeping, for example, and perhaps even scholarly amenities (e.g., the service in libraries). While one can scarcely imagine that change in any one factor in the "quality of life" might affect college-going, all together may simply make four years at a college less attractive.

As a result of the recent economic developments, Williams calculates that the "rate of return" from an investment of a young person's time in higher education in Britain has declined. Estimated in 1967 by A. Ziderman at 15 per cent, it had gone down by 1973 to about seven per cent. (The latter figure seems close to the rate of return for higher education in the United States—7.5 to 9.0 per cent, according to Paul Taubman and Terence Wales, *Higher Education and Earnings: College as an Investment and a Screening Device,* McGraw-Hill, 1974.)

But I think if we were to limit ourselves simply to the economic factors that are making higher education less attractive in a group of advanced countries, we would be missing some important points. The economic explanation, however sophisticated, is probably not complete. Was 1974, after all, a year in which one might expect, on economic grounds, an *upturn* in the number of freshmen going on to higher education? Yet after three years of losses (in absolute numbers), the percentage of freshmen showed a surprising gain in 1974 of 4.6 per cent (*New York Times,* December 30, 1974; figures from the American College Testing Program at the University of Cincinnati). One can think of economic explanations even for this: Conceivably the prospects for manual workers are looking even worse than the prospects for college graduates. Possibly economic explanations are all that is necessary (we will want the results of analyses similar to those of Gareth Williams for other countries before we know). But there is another kind of explanation: Higher education may simply not be to many people's taste.

Of course, if its economic advantages are very great, people without the taste for it will swallow their distaste and take the bitter pill. Economic rewards can encourage people to do many things they would prefer not to. Further, if the drift of elite opinion is added to the economic rewards and everyone is strongly encouraged to and expected to go on to higher education, the pressure will

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be greater. Thus, we now have programs to encourage higher education not only among drug addicts and prison populations (who may contain, after all, persons of high native intellectual capacities), but also among those who drop out of high school, or who have never been able to get through it. And these programs to prepare people for higher education not only have direct "consumption benefits"—the aim, after all, is to make them attractive to unlikely clients—but often direct economic rewards. The number of people who may be persuaded, encouraged, pushed, cajoled, or rewarded into going on to higher education is certainly large. In England it may be 15 per cent of the age grade; in the United States 40 per cent; in New York State—with its enormous push for higher education and with New York City's open enrollment for high school graduates and free education—it reached a high of 70.7 per cent of all high school graduates in 1970 and 1971 (but fell to 68.1 per cent in 1973).

But even under the best of circumstances, the taste for higher education does seem to have some limit. The limit can be raised by economic reward and encouragement, by making higher education less demanding, and by raising its ostensible academic rewards (in terms of grades) for those of lesser ability. But even these maneuvers can accomplish only so much. An institution can be changed, and perhaps changed radically, but it has a shape, some minimal commitments, and it is constrained by the conservative drag of existing staff and of historical expectations as to what it should be doing. It is *expected* that colleges and universities should have courses listed as history, philosophy, physics, mathematics, literature in foreign languages, and there is a certain embarrassment—though it can be overcome—in giving college credit for remedial reading and arithmetic. Institutional drag means that the combination of economic advantage, consumption opportunities, social pressures, and institutional encouragement finally faces the stubborn and unmoveable resistance of some young people to what the institution does, and what it expects those in it on occasion to do. At least this is one possible explanation for why the curve of attendance in institutions of higher education is shifting from its expected half-U-shape to an S-shape—a plateau is reached, all other things being equal, though the height of the plateau will vary depending on the nature of institutions of higher education, the degree of encouragement given to attendance, the character of upper secondary education, and the like.

THERE is one encouraging aspect of this development: The invasion of institutions of higher education by those hostile to it has a limit. Some people won't invade even if you pay them, and the need to accommodate higher education to those least suited to it may already have gone as far as it needs to. Perhaps as the numbers interested in higher education fall off further, the restoration of somewhat higher standards, better suited to higher education, may become possible.

One fear created by the increasing commitment of societies to

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producing equality in all spheres may thus be moderated: the fear that all institutions of high culture will be leveled to accommodate everyone, because in addition to maintaining and spreading high culture they provide an "unfair" economic benefit to those they educate. If indeed, under conditions of perfect openness, a good number of people simply are not interested and do not want to involve themselves with even the latter-day descendants of liberal education, these institutions may have, even in an egalitarian society, the right to maintain their distinctive character.

But what does this mean for the hope of many that a universalizing of higher education would also break one of the chief supports of inequality in income and occupation, the requirement of the college degree? One thing one might say is that the college degree, as it spreads in society, no longer provides a ticket of the same value as it once did; that is why attendance drops off. Thus its role in producing inequality is reduced. Indeed, we may well see its role reduced further. Not long ago the high school diploma was attacked as a requirement for employment, since fewer blacks had it. As the proportion of blacks getting high school diplomas rose to reach the level of whites, the tests of ability that in some quarters had *replaced* the high school diploma were attacked; by then the simple requirement of the high school diploma was seen as more egalitarian. Now *both* independent tests of ability *and* educational degrees are under attack as selection and screening devices: all tests, because different groups achieve on them at different rates, and all degrees, for the same reason. Recently the Equal Employment Opportunity Commission has decreed that a police force may not give college graduate policemen higher salaries than non-college graduate policemen, because more of the latter are black. At the same time, tests for policemen have been declared unconstitutional in many jurisdictions because of differential passing rates. (In such cases courts and civil rights agencies impose the very difficult requirement that such a test be shown to be "job-related" before it can be used.)

And since Taubman and Wales, in their study of returns to earnings from higher education, have demonstrated that a good part of the benefit is owing simply to the role of higher education as a screening device, one can at least foresee the possibility that education will be eliminated as a factor to be taken into account for employment or advancement in employment. (This was once suggested as a Constitutional requirement by Ivan Illich.) If, together with this, most tests are eliminated owing to the difficulties of meeting the requirements set by the federal civil rights agencies and the courts, one can speculatively foresee a time when higher education as such gives little benefit in occupation or earnings at all. If this comes to pass, the pressures on higher education to become something different from what it can be would happily also be reduced. Since the fact that one had studied Sanskrit then would give no advantage, those few who wished to pursue knowledge could do so without risking the charge that they were acquiring an unfair advantage. It would not be the worst outcome.

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